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# PRIVATE LABEL PRODUCTS: IMPROVING COLLABORATION WITHIN INTERNATIONAL SUPPLY CHAIN

Case: L-Fashion Group Oy

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## ABSTRACT

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This thesis discusses the distribution of work and flow of information in an international supply chain of private label products. The study was commissioned by L-Fashion Group Oy (LFG), the case company. The company operates in the clothing industry and has centralized their production in China. The study deals with the distribution of responsibilities between the members involved in the international supply chain. Additionally, building a SWOT analysis on LFG's private label competence and summoning developmental aspects are included in the objectives as well.

The data used for this qualitative study was gathered through the author's own observations, theme interviews of three company employees and subject-related literature. Both theoretical and empirical parts of the thesis are presented in a parallel manner. The theory part examines the concepts of supply chains and private label processes with an aim to connect them to the case study and support achieving the objectives of this thesis.

The key results reflected issues concerning unclear procedures in the private label process and imprecise instructions presented by the customer. Roles in a supply chain in general have shown the trend of increasing intermingling and call for collaboration. Furthermore, operating in the yet more global business environment requires speed and flexibility in order to meet the demand of the market at the right time.

Communications is an essential function both internally and externally, and generally involved into all organisational operations and factors influencing their efficiency. Conclusions showed that sharpening responsibilities of each member involved into the private label process advances collaboration with foreign business partners and improve customer satisfaction at the end of the supply chain.

Keywords: private label, processes, collaboration, international supply chain management, product development, L-Fashion Group Oy

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## TIIVISTELMÄ

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Tämä opinnäytetyö käsittelee työnjakoa ja tiedonkulkua private label - tuotteiden kansainvälisessä toimitusketjussa. Työn toimeksiantajana toimi L-Fashion Group Oy, joka toimii vaatetusalalla. Yrityksen tuotanto on keskitetty Kiinaan. Työn tavoite on selvittää työnjakoa toimitusketjun jäsenten välillä ja arvioida case-yrityksen asemaa private label – tuotteiden valmistajana SWOT-analyysin avulla. Lopuksi työssä on koottu tulevaisuuden näkymiä toimitusketjun kehittämisen suhteen.

Tutkimus on kvalitatiivinen ja sitä varten koottu aineisto tukeutuu kirjoittajan havainnointiin, kolmeen yrityksessä toteutettuun teemahaastatteluun sekä aihetta koskevaan kirjallisuuteen. Työn teoriaosassa tutkitaan toimitusketjuja sekä private label – prosesseja, minkä tavoite on yhdistää aiheet case-osuuden kanssa ja tukea opinnäytetyön tavoitteiden toteutumista. Tässä työssä teoriaa ja empiriaa käsitellään rinnakkain.

Tutkimuksen tulokset osoittivat, että private label – prosessissa vaikeuksia on aiheutunut sekä yhteisten käytäntöjen epäselvyyksistä että asiakkaalta saatavien ohjeistusten ristiriitaisuudesta. Toimitusketjun hallinnan trendit korostavat yhteistyökyvykkyyttä sekä aktiivista kanssakäymistä toimitusketjun kaikkien jäsenten kesken. Toimiminen kansainvälisessä liiketoimintaympäristössä vaatii nopeutta ja joustavuutta, jotta markkinoiden kysyntään pystytään vastaamaan oikeaan aikaan.

Viestintä on merkittävä toiminto yritykselle sekä sisäisesti että ulkoisesti. Se on tärkeä työkalu organisaatioiden toiminnoille sekä tekijöille, jotka vaikuttavat niiden tehokkuuteen. Opinnäytetyön johtopäätökset osoittavat, että vastuunjaon tarkentaminen private label - prosessissa edistää yhteistyötä ulkomaalaisten liikekumppaneiden kanssa ja parantaa asiakastytyväisyyttä toimitusketjun lopussa.

Avainsanat: private label, prosessit, yhteistyö, kansainvälisen toimitusketjun hallinta, tuotekehitys, L-Fashion Group Oy

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## 1 INTRODUCTION

Communication serves as an important tool for organizations as a whole. The business idea bases itself on the vision created by the company's management. After determining that, each organisation sets strategic goals in order to realise its vision. (Fintra 2001, 17-19.) Traditionally, organisational communication can be seen to consist of its content, direction, channel and style (Miller K. 2009, 28-30). Outwardly, communication is a powerful resource to succeed in signalling a mutually determined and internalised mental picture of an organisation. That is, when it is effectively linked to the overall operations of the company, it backs up the internal and external image and increases the recognition among partners of a company and its other target groups. The dimension brought by international operations calls for the integration of units into functioning in accordance with the common goals. (Fintra 2001, 16-19.)

Especially in the global context, the future's operations and management are suggested to meet surfacing challenges because of outsourced functions and coordination of relationships between separate organisations that, nevertheless, work in a mutually supportive manner. One purpose for it is, for example, delivering a product to the market through a supply chain. What is more, the listing of such current issues of the field would also account the call for consideration of the positioning of the centralized control and autonomy regarding a global company's supplier, production and distribution networks which require careful optimisation. (Jacobs & Chase 2011, 52-53.) Among other consequences, this influences decisions made concerning the distribution of operations and responsibilities between separate units of an organisation. Communication could serve as one example of that. (Fintra 2001, 16.)

Considering the apparel supply chain, both global competition and changes in consumers' demand have set higher requirements for the processes in terms of flexibility and adaptation (Keiser, S. & Garner, M. 2008, 5). Such trends call for help in creating or updating information flow between the members involved in regenerating supply chains. Process descriptions serve as important tools for the supply chain management. Such figures concentrate, for example, on responsibilities, employees' skills, work phases, production and capacity. Additionally, processes are a basis for evaluation of quality and IT security. Their profitability and performance are examined through the customer's experience regarding the outcome of the supply chain. (Logistiikan maailma 2011, 51.)

The apparel supply chain provides clothing to the ultimate user who may purchase it by utilising multiple distribution channels such as retail stores or the Internet. Private label products are brought to the market by a specific retailer so that consumers can buy it exclusively from one particular seller (Keiser, S. & Garner, M. 2008, 20). Private labels compete with the traditional wholesale brands included in the retailer's selection. These two product categories differ from each other in design and production and also have different pricing strategies. (Burns & Bryant 2007, 280.)

This is a commissioned thesis by LFG (L-Fashion Group). The company operates internationally in the clothing industry. LFG has several international wholesale brands of its own, such as Icepeak and Luhta. Anyhow, the case study of this thesis explores a private label process to its Russian VIP customer Sportmaster. Furthermore, this private label clothing line for the customer is named Outventure. That is, Outventure collections are sold exclusively by Sportmaster to consumers just like, for example, Icepeak collections are sold exclusively by LFG to its customers. LFG's production facilities are situated offshore in Suzhou, China.

Originally, the idea to work with a Russian-related issue sparked from a personal interest in the market and therefore became the leading guideline in search of a topic for the thesis. My practical training at LFG made it possible to come up with a subject of this preference within their organisation. The discussion led to their rising cooperation with a Russian retail chain and hardships that have surfaced as for communication and unclear procedures between the business partners situated in China, Finland and Russia as Figure 1 demonstrates.



Figure 1. Geographical location of China, Finland and Russia (CIA 2012)

Table 1 presents the parties involved in the case study and their roles in a nutshell. It is also to implement desired goals regarding communication between the partners. That is, LFG's subsidiary in Suzhou to take on communicating straight to the Russian customer without as heavy involvement on behalf of the headquarters as there currently is (Heikkinen 2011).

Table 1. Parties of the case study and their roles

<b>Party</b>	<b>LFG in Lahti, Finland</b>	<b>LFG's subsidiary in Suzhou, China</b>	<b>LFG's subsidiary in Moscow, Russia</b>	<b>Sportmaster in Moscow, Russia</b>
<b>Function</b>	Headquarters in Lahti  Product divisions  Administration  Sales department	Manufacturing facilities in Suzhou  Production, merchandising, logistics, accounting	Sales office  Russian logistics	Russia's largest sportswear retailer  Experienced in contract manufacturing
<b>Role in the case study</b>	Responsible for all LFG's operations  Private label product management	Private label manufacturing  Team Russia of the product development communicates with the customer	Sales contract with the customer  Import of ready goods to Russia	Private label seller  VIP customer



LFG's headquarters in Lahti, Finland is responsible for all business done by the organisation. Administration, sales and product divisions, which are presented later in Chapter 2 too, are managed from the headquarters. In the case study of the private label process and the goods' supply chain, the managers of product development department are involved in the decision making and supervision of the activities.

LFG's two subsidiaries that are relevant to the case study are located in China and Russia and have distinctive functions. The manufacturing facilities of the company are situated in the Chinese location of Suzhou, where the subsidiary also has its own departments of production, merchandising, logistics and accounting. In terms of private label creation and manufacturing, the Chinese product development team is responsible for communication with Russian customers. On the other hand, LFG's Russian office in Moscow has a function of sales and logistics to Russia. The sales contracts between LFG and its Russian customers are drawn up with this unit. After that, the office operates as the last link in delivering ready goods to the customer as it is also responsible for managing import to Russia and making the goods available to the customer.

Sportmaster operates as one of the largest Russian retailers in the field of sports. Its role in the study is determined by its position as a customer and private label receiver at the end of the supply chain studied in this thesis. Nevertheless, Sportmaster is heavily involved in the private label process all the way from the beginning, which also explains why fluent communication flows within the supply chain become worth discussing.

What is more, Sportmaster is the most important customer of the case company in the Russian market. Additionally, this area is currently the biggest opportunity for LFG to achieve growth abroad. Therefore, managing customer "touch points" is something to think of. That has been brought up as a consequence of efficiency which might often easily mean cutting costs first in maintaining customer support services. (Jacobs & Chase 2011, 52-53.) Russia and China are both trading partners where bureaucracy is often experienced to be time-consuming and challenging to manage (Veijalainen 2011).

Next in this chapter I will present the objectives together with the scope of the study, then methodology and finally the overall structure of this thesis.

### 1.1 Objectives and scope of the study

Figure 2 presents those organisational units of LFG in Finland, China and Russia that comprise the ensemble for doing business in Russia. The Russian customer, Sportmaster, is found in the right-hand upper corner. The lines and arrows are to demonstrate the directions of communication, information and material flows between the parties. Additionally, different phases are marked with different colours to show their chronological order. The roles of LFG Lahti and Suzhou are briefly presented in Table 1 (pp. 4) but also further in Chapter 2, where the role of LFG Moscow will be sharpened, too. Sportmaster's customer profile will be drawn up in Chapter 3.

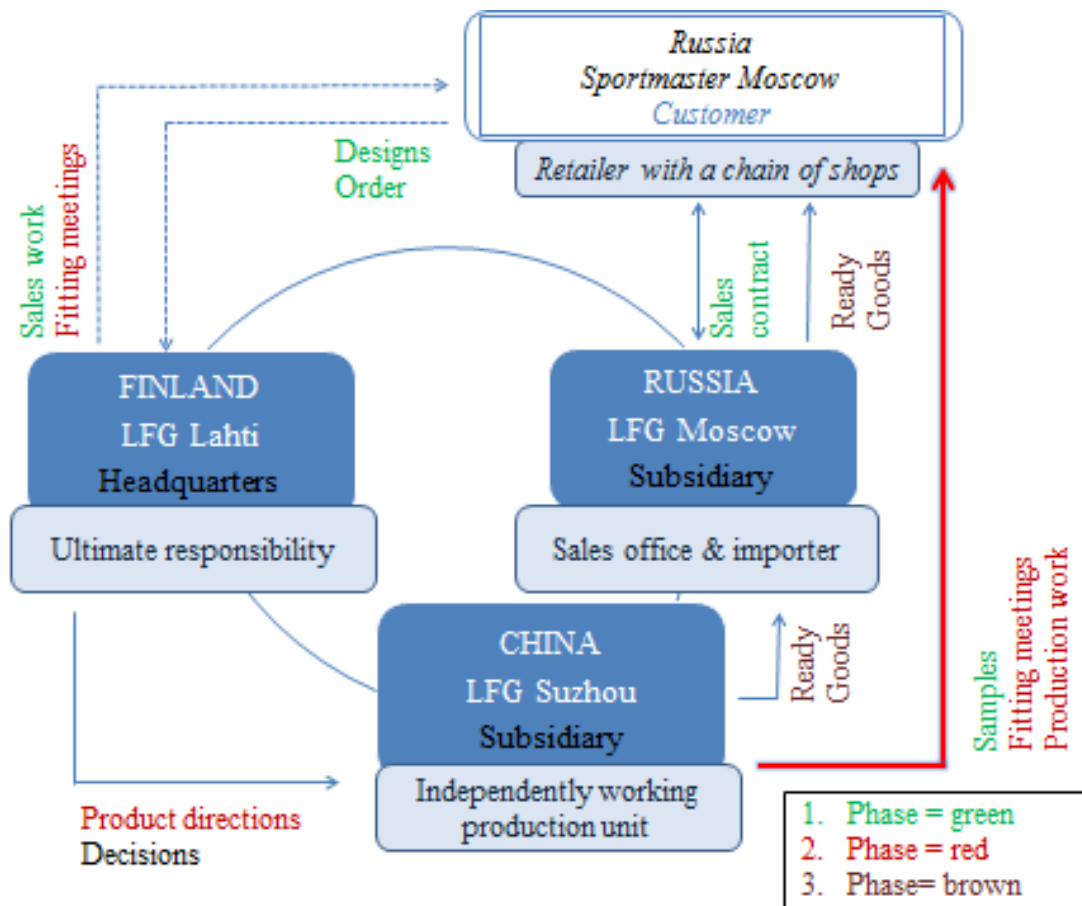


Figure 2. LFG's units involved in its operations in Russia

In Figure 2 phases marked with green begin the process by measures of sales. This is done between LFG Finland or the headquarters and the customer who in this case would be Sportmaster. Orders and private label designs are received by LFG Lahti and Suzhou, whereas the actual sales contract is made with LFG Moscow. The phases of the production period are marked with red and the last ones after that with brown which comprises LFG Moscow's role as an importer.

The function of the boldest red arrow line directing from LFG Suzhou to Sportmaster Moscow on the right side in Figure 2 is to highlight one objective of this thesis. That is, LFG Suzhou to develop towards a more autonomously working unit in relation to interaction with the customer. Simultaneously, the light blue broken arrow lines on the upper left corner are to demonstrate the desired, lessened need for interaction between the headquarters and the customer.

The purpose of this thesis is to provide LFG's team in Suzhou with a model that deepens understanding in terms of both the Outventure private label process flow to Russia and country-specific features in relation to private label products. In other words, the case company aims at establishing a clear distribution of responsibilities between the headquarters of LFG in Lahti, Finland, and its office in Suzhou, China. The distribution of responsibilities in the Outventure supply chain is one of the main objectives of this work.

Not forgetting that the ultimate responsibility for doing business remains inevitably in Lahti, the pursued stand for the Chinese Team Suzhou would be them to communicate independently with Russian customers without the intervention of the Finnish team. The process description that results from the empirical side of this thesis aims to support this progress in which Team Suzhou becomes more independent and capable of managing communications to Russia. The description will present every activity, or phase in the private label supply chain and responsible parties of each one of them in parallel.

The study also aims at enhancing uniformity of procedures within the case company by implementing especially issues in terms of Russian import and communication between these three partners. As for as market areas abroad are concerned, it can be said that succeeding in Russia demands a good knowledge of local legislation and regulations set for trade. Furthermore, acquaintance with ways of good communication and capability to show consideration for differences should have their reflection to refined and more effective customer service too.

A strong focus on the processes and logistics also entails discussion about the private label supply chain being studied from the viewpoint of product development. Chapter 5 fulfils the objective of compiling a SWOT analysis that concentrates on LFG's current private label process and its outlook. Simultaneously, some aspects of it as an instrument to grow stronger in the Russian market will be presented too.

The private label case study in this thesis aims at bringing together separate viewpoints concerning the subject from the theories about processes, supply chains, the Russian market, information flows and communications. Furthermore, the referenced material in this thesis centres on relatively up-to-date sources. These are the theoretical goals of this thesis. The research questions strive for setting up solutions for both general and case-related process improvement. Consequently, those are defined as follows:

- 1) How could the current private label process of the case company be analysed and which improvements could be considered?
  - ☞ SWOT analysis as a tool
- 2) How could the theories combined in this thesis support clearer distribution of responsibilities?
  - ☞ Process studies
- 3) How could the apparel supply chain be improved by examining tasks and roles in it?
  - ☞ Table of responsibilities in the supply chain
  - ☞ Table of the future's supply chain improvement activities

Throughout my work the private label process study will serve as a skeleton along with both the Chinese viewpoint to Russian market potential and critical parts of communicating between the manufacturer and the Russian customer. LFG provides this thesis with a viewpoint of the manufacturer and the seller. Theoretical and empirical parts of the thesis will be discussed side by side.

## 1.2 Limitations

As a whole, the start of a supply chain can be traced to agriculture or “Mother Earth” and it finishes when the ultimate buyer is reached (Burt, Dobler & Starling 2003, 9; Keiser & Garner 2008, 5). While the core operations of LFG and Sportmaster focus on clothing manufacturing and retailing, this thesis also has its focus strongly on the later part of supply chains. In addition, the study is based on an international context.

Processes as a concept are explained with a rather vast perspective in order to show their universal and many-sided nature. Yet, the theory focuses on studying supply chains from the viewpoint of product development and information flows in the course of the private label process. Further aspects such as capital flows, marketing or legislative environment are irrelevant to the objectives of this study and therefore filtered out of it. The theory touches, in certain issues, the earliest stages of a supply chain and, for example, production and cost management that, however, have been ruled out of more specific examination. That has applied to further cultural aspects too in order to maintain the amplitude of this study reasonable. Even though the Russian business environment will be partially presented, this thesis does not examine, for example, the customs clearance from China to Russia because of difficult access to relevant information about the procedures.

Private label products and the apparel supply chain explored in this study focus especially on clothing for sports and leisure. Additionally, other branches which have introduced private label products won't be discussed in the thesis. For these reasons I have excluded home fashion and fashion clothing from the examination and will concentrate on the case company's sport division. An exception to that will occur in the discussion of the Russian market as the data utilised there includes material collected from the Fashion division of LFG. Lastly, some aspects related to production, for example, will be discussed in relation to the main objectives regarding supply chains and private label processes. Figure 3 presents which approaches to the case study the thesis utilises.

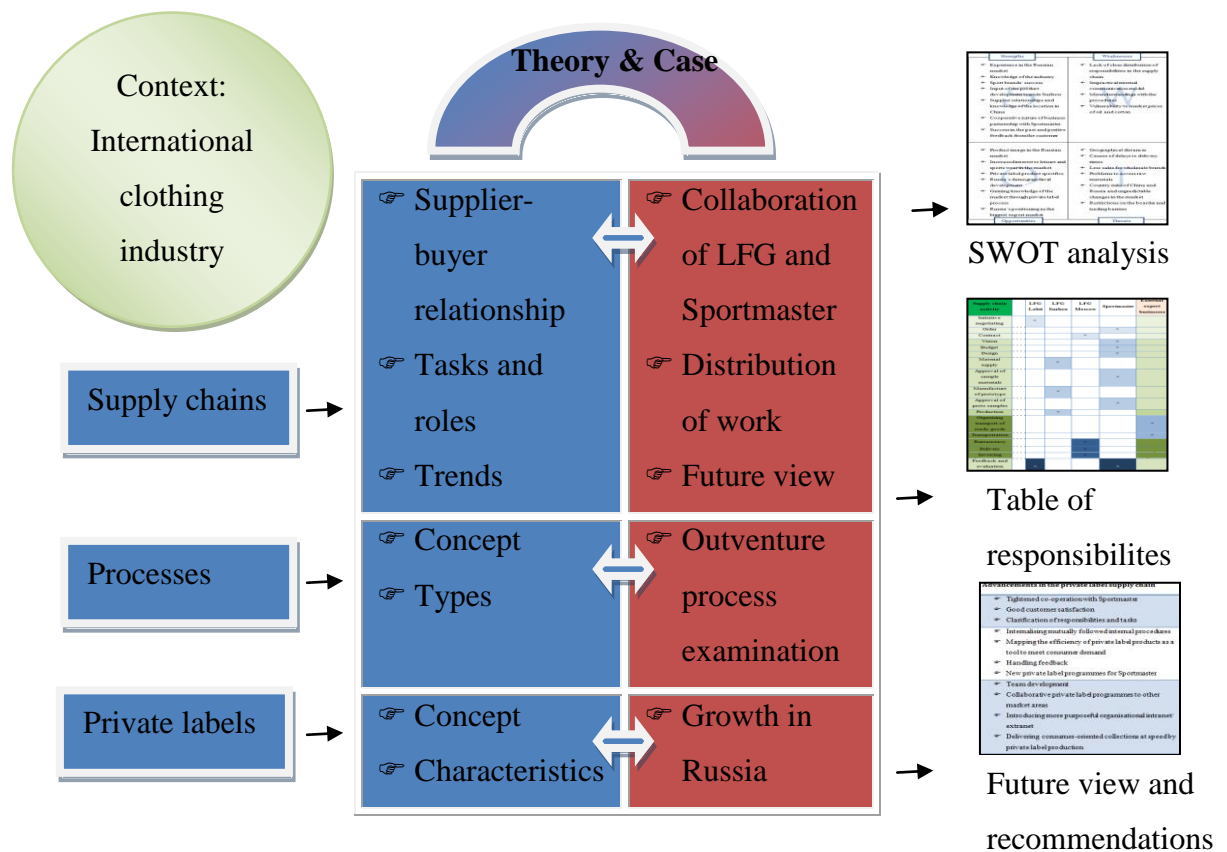


Figure 3. Objectives of the thesis

The context of the thesis is presented first in the upper left corner and below that the main subjects of the study: this work deals with supply chains, processes and private labels in relation to the international clothing industry. Subjects discussed in this thesis are limited to the ones presented in the middle under “Theory & Case” heading. Theoretical and case-related, or empirical parts are presented side by side throughout the work. Lastly, Figure 3 concludes the outputs of the study on the right side. Those include SWOT analysis, table of responsibilities and table of the future view and recommendations related to the private label supply chains.

### 1.3 Research methodology

This thesis is research-oriented and relates to working life. Figure 4 below demonstrates the nature of the paper. It is a qualitative study with an inductive approach. From the empirical starting point of the case study, researching data in a multisided manner will lead towards conclusions. In other words, when a study is considered inductive discussion proceeds logically on conditions of the data and so determines what is relevant to the subject. (Hirsjärvi, Remes & Sajavaara 1997, 160; Eriksson & Kovalainen 2008, 22-23).



Figure 4. Research methods utilised in the thesis

A case study is a common form of a qualitative research that aims at finding generalisations by analysing empirical material. The data collection methods that I have applied match with the characteristics of a qualitative research. That is, literature and other sources come together in existing and natural circumstances. Interviews and observation were also tools that are included in the methods that are utilised in qualitative studies. (Hirsjärvi et. al 1997, 160, 260; Eriksson & Kovalainen 2008, 16, 22-23.)

The data collected through observation took its place in 2011 during my two working periods of five months each at LFG. Having done my practical training in the sales department, I worked as an assistant and switchboard operator. When it comes to the interviews, they were conducted with the following LFG employees:

- ☞ Product development department: Mrs Katja Heikkinen, Key Account Manager. May 2011 & February 2012 (electronic mail)
- ☞ Logistic department: Mrs Irina Odintsova, contact person to Russia. December 2011
- ☞ Sales and marketing department: Mrs Marina Toivonen, Country Manager, Russia and the CIS countries. January 2012

All interviews for the thesis took place in Lahti. In May 2011 I interviewed Key Account Manager Katja Heikkinen who works at LFG's Finnish product development department. Two other interviews were carried out in the headquarters where the company's departments of logistics and sales located. The interview with Irina Odintsova, who works as the logistics' contact person to Russia, took place in December 2011 and finally, the discussion with Marina Toivonen in January 2012. I also interviewed Katja Heikkinen for the second time per electronic mail in February as new questions had arisen in consequence of the other interviews.



Each one of the discussions was a theme interview and they were carried out as conversational ones. In practice, I had prepared a rough list of themes that any given interview should cover, yet at the same time decided to let the interviewee speak in a less limited manner so that they could also bring up issues that they find important in relation to their experience about my subject. In relation to the definition of types of interviews, these ones were a mixture of a structured interview and on its contrary, an open interview (Hirsjärvi et. al 2008). The Appendix 1 of this the thesis includes the topics of interviews with Toivonen and Heikkinen (2012).

The Material that I found useful consisted of literature concerning supply chains, apparel industry, private labels, processes, international trade, communication and logistics. As the list of sources will reveal, I used both publications such books and electronic articles and other material. The data on the case company I collected from publications, such as LFG's annual report 2010. Additional data was collected from the departments of logistics, product development and sales as I interviewed company employees whose work was closely related to the subject. Furthermore, I asked a permission to receive and utilise presentation material on the company. Information that is gained through observation refers to my learning experiences gained during the time I worked at LFG in 2011.

There was not any research available that would have been a match to my study that combines processes, private labelling and Russian import. Anyhow, I came across with a number of publications about these topics singularly. Having done the research, I might say private labelling in the apparel industry is a less examined subject than, for instance, food stuffs that are sold as stores' own brands. On the other hand, information about processes in all and Russian trade procedures is more available in varying contexts and industries. Moreover, L-Fashion Group as a company has been a fairly frequently utilised commission company in multiple bachelors' theses in several lines of business and also in the textile and clothing technology.

#### 1.4 Structure of the thesis

The first chapter of the thesis is the introduction which presents the case study and the structure of the thesis. In the body of my thesis theoretical chapters will be dealt side by side with their shares of the actual case study that provides with the empirical part of this study. Figure 5 on the next page demonstrates the structure of this thesis.

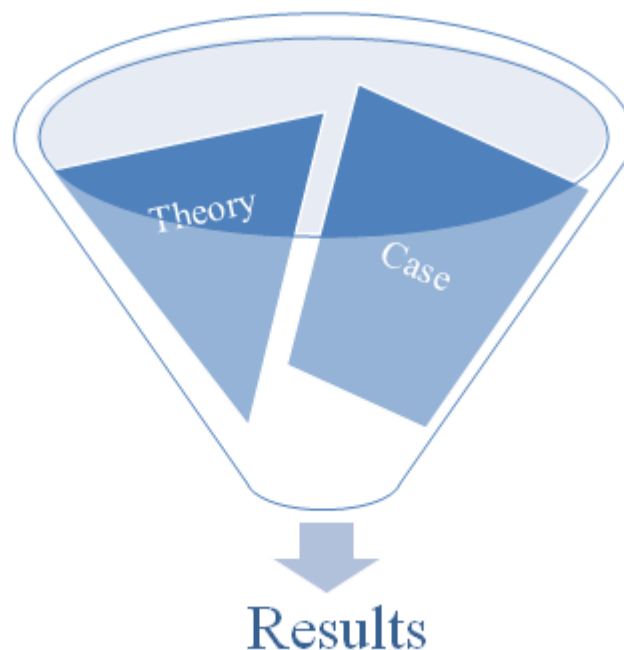


Figure 5. Structure of the study in the thesis

As the figure shows, the results of this thesis will be compiled after studying both theoretical and empirical sections side by side. This way the reader can immediately learn how and why the two come together. After introducing the company and the starting point of private label programmes for the Russian customer, the focus will shift on operating in the market from LFG's viewpoint. That is, Chapter 2 presents the case company in order to provide the reader with the starting point in terms of the commissioner's profile before focusing on the actual object-oriented chapters of the study that will then follow.

Chapter 3 has a function to present the Russian clothing market and the nature of business-oriented communicating between collaborative partners in China, Russia and Finland. The customer profile of Sportmaster will be introduced as well.

Chapter 4 discusses processes. After dealing with the general concept of a process, the emphasis will shift to processes in the framework of the clothing industry and structures of supply chains. Private label processes will be explored in more detail, too.

In Chapter 5 I will focus on the concept and the idea of private labels and their function in the industry. Furthermore, the framework of LFG's competence as a private label manufacturer will be evaluated. Chapter 5 will present A SWOT analysis on this subject, followed by the future view for the continuity of private label collaboration.

Chapter 6 concludes the findings of the study and evaluates it. Additionally, tables that implement the distribution of responsibilities and the supply chain development of the future will be presented then. Finally, in Chapter 7 the work will be summarised. Exhibits in this work help to understand the process and combine the case work with theory more seamlessly.

## 2 L-FASHION GROUP

As the basis for the subsequent chapters in this chapter I will present the case company before introducing the actual case study.

LFG operates in the textile and clothing industry that sells clothing products to customers in retail trade and also in the domestic market straight to consumers in its brand stores, factory shops and retail shops (Aleksi 13 chain). There are 1 800 employees working for the concern. In 2010 its annual revenue amounts to about 249 million euros. (L-Fashion Group 2011a, 7.)

Luhta company (LFG) was established 1907 in Lahti where the headquarters still is. In the 1950's the company became the biggest outerwear manufacturer in Finland. In the following decade, their development led to technically lighter and more colourful lines of clothing. Consequently, in the 1970's the liberality in designing had increased their sales and now required increasing the capacity of production. This was also the time for the company to break through internationally. (L-Fashion Group 2011d.) Nowadays the company operates multinationally, yet it has remained as a family business that is now run in the fourth generation.

When Finland was experiencing a deep economic recession in the early 1990's, the company changed its name to L-Fashion Group (Forssell 2007). Current trends in the market of sportswear and the influence of the annual rhythm have tuned out to support the growth in sales of the company. When considering LFG's prospects for sales abroad, Russia along with Southern Europe and China are listed to comprise the most prospective markets considering expansion. (L-Fashion Group 2011a, 5.)

According to LFG's annual report 2010 the operational principles of the company consist of following the valid laws, regulations and ethically accepted operations models. The way how business is run is based on internationally recognized declarations and conventions that respect human dignity and enhancing human rights. As an example the Universal Declaration of Human Rights by the United Nations General Assembly in 1948 (ihmisoikeudet.net 2010) is named in the report. The company states that each member of the group is responsible for following the principles. Consequently, it is also an inseparable part of managing the business and its brands. (L-Fashion Group 2011, 24.)

As for its subcontractors and suppliers, LFG calls for complying with regulations and laws that go for their practises. In the concrete, in their delivery contracts they are required to commit to LFG's own "code of conduct" that serves as a tool for the organisation to, for instance, supervise how requirements concerning human rights, administration and environmental issues are being qualified. This code of conduct includes parts from requirements of working conditions, welfare and right of assembly set by the ILO (International Labour Organisation). (L-Fashion Group 2011a, 24.) The ILO works internationally to promote labour standards that enhance opportunities to create decent work in equal, secure and free conditions (ILO 2012).

## 2.1 Organisational framework of the case company

In general, the organisational composition of businesses that specialise in clothing manufacture consists of marketing, merchandising, production, finance and operations' functions. In terms of their range of goods produced and distributed such companies need to determine on which clothing categories they will be concentrating. (Keiser & Garner 2008, 59-60.) Currently, business operations of the case company are divided into three divisions which are Fashion, Sport and Home. The functions and brands of each division are presented in Table 2.

Table 2. LFG's divisions and brands (L-Fashion Group 2011a)

	<b><i>Fashion</i></b>	<b><i>Sport</i></b>	<b><i>Home</i></b>
<b><i>Characteristics</i></b>	Casual and fashionable  Classic designs	<b>Clothing for outdoors, leisure and sport</b>	Lifestyle products  Inexpensive alternatives
<b><i>Development</i></b>	Sold in the Nordic countries  Quick reaction to fashion trends	<b>Primary market areas in Europe</b>  <b>Multipurpose use and complementary collections</b>	Domestic market  Growth trend in home interior branch
<b><i>Turnover in 2010 (100 %)</i></b>	117 Million € (46,8 %)	<b>123 Million € (49,4 %)</b>	10 Million € (3,8 %)
<b><i>Brands</i></b>	Ril's, Your Face, Luhta, J.A.P, Ois, Story, Aleks13	<b>Luhta, Icepeak, Rukka, Sinisalo, Torstai, Li-Ning</b>	Luhta Home, Casa

What is relevant in Table 2 regarding the case study is the third column of Sport division that creates the basis of the Outventure private label collection. In general Icepeak, being the biggest brand of the division, serves as a model for various private label products delivered by LFG. In comparison to Fashion and Home divisions, Sport accounts for the biggest share of the company's annual turnover. In 2010 the number amounted to 49,4 % with sales of 123 million Euros. Besides Icepeak, the division also comprises other wholesale brands such as Luhta and Rukka that are also sold internationally. Story, that is now included to the brand portfolio of the Fashion division, has been utilised as a basis for private label collections too. Before the most recent organisational changes, the brand was included to the Sport division. The implementation of a Story process will be presented in Chapter 4.

As it will be discussed further in Chapter 4, private label products normally succeed in such clothing categories that Sport division represents. That is, characteristic of the products is suitability for leisure, sports and outdoors. Consequently, LFG's product development departments in Lahti and Suzhou have both their separate teams that are at work mostly on private label products. Succeeding in the clothing industry sets a specific emphasis on a strong and diligent product development functions within an organisation (L-Fashion Group 2011a, 20). LFG has executed private label programmes to other international customers too. Nevertheless, Sportmaster is the first partner who is involved into the process from its beginning.

Product development comprises the planning of goods from multiple factors. The most important of them are creative, strategic and technical designs together with production and distribution schemes. Consumer-centred goods adapt to changes and are designed to be available to the ultimate buyers when they are ready to purchase the product. In terms of the apparel supply chain, the role of product development is to deliver such design to the market. (Keiser & Garner 2008, 4.)

The business environment for product development is shifting to a more competitive direction. Companies are becoming more and more global and there are more versatile distribution channels to make use of, the Internet, for instance. What is more, there is a tendency that consumers' demand challenges the apparel supply chain to deliver yet wider ranges of goods produced in tinier bulks which then are available for more limited time in the market (Keiser & Garner 2008, 6). In relation to the case, this is experienced by LFG too. Delivering private label products can serve as a tool for such elements as product innovation, speed, costs and access to resources and technologies to be combined to enhance these new expectations of the supply chain (Keiser & Garner 2008, 6; Heikkinen 2011).

Moreover, tasks in the apparel supply chain have become less separate. The development forces the apparel supply chain to abandon the neat linear model where each member manages decisions and the information flow regarding its own process only. What happens is that the members integrate their work to one process which gives the chain flexibility to respond fast to the consumer need (Keiser & Garner 2008, 6-7). Changes in competition and consumer behaviour have led clothing industries to rely on an agile manufacturing strategy that is examined in a more detail in Chapter 4.



## 2.2 LFG's operations in Russia

The table 3 concludes the main phases of development in the Russian market both in a more general fashion and from the viewpoint of the case company. It summarises also LFG's operations in Russia within the period of the past 20 years.

Table 3. LFG's operations in the Russian market (Fashion division 2011; The Voice of Russia 2012)

Timeline	-1991	→	1997	→	2007	→	2011
<b>Development in the market</b>	Finnish-Soviet Clearing Trade		Risks and opportunities equally big  Depression in 1998		Stable growth  Middle class begins to form  Financial crisis and recession in 2008		Record low inflation rate  Economic growth + 4,2 %  Rising level of people's income
<b>LFG's position in the market</b>	Image of a high-quality brand		Orderly growth  Difficulties to find reliable partners		Sales focuses on even bigger and professional players  "ExWorksFinland" delivery terms  Establishment of a subsidiary in Moscow  Concept stores (Luhta)		Annual growth of +25 %  Increased market share  Growing share of retailing in distribution  Outventure collaboration

LFG has operated in the Russian market for nearly 50 years. Initially, trading with Russia worked in two ways so that raw material was first imported from the area to Finland and then finished products were exported back there. Gradually the focus shifted more to exports, which then led LFG to make more profit in the market. Already by the early 1990's Luhta had established an image of a high-quality brand which gave the company a good starting point for development in Russia after the disintegration of the Soviet Union. Trading circumstances that were peculiar to the decade arose out of the sense of equally big chances to either succeed or fail. Over the period LFG's company's growth maintained orderly. One of the biggest problems was difficulty to find reliable partners.

In 1998 the Russian Federation experienced its first financial crisis after which the market began to recover and grow stronger with the 2000's. By the time the Russian market experienced its second financial crisis and recession in 2008, the middle class had started emerging. This factor will be discussed later in Chapter 5 in context to the current market situation and Russian consumers. At the same time, in the 2000's, LFG managed to promote its operations to a more professional direction. Also its business partners were yet bigger players in the market. "ExWorksFinland" served as the terms of delivery in LFG's export to Russia. In 2007 LFG established a sales office in Moscow. The subsidiary also has a logistic function in terms of import to the market. In relation to the case study, the Outventure process was first introduced at the end of the noughties. In spring 2012 Outventure process will be carried out for the fourth time (Heikkinen 2012).

As Table 3 on the last page shows, LFG states that currently its annual growth in the Russian market is 25 % and its market share is increasing. The company is experiencing growth also in its own retailing operations in Russia. It operates several Luhta Brand and Luhta Multibrand stores, one Luhta Kids and one Icepeak store in Moscow. There are also 15 stores in other big cities where they are operated by franchisers. (L-Fashion Group 2011b, 12.) In 2011 the Russian economy showed positive advances too. Its inflation rate is now record low and economic growth amounted to 4, 2 %. (The Voice of Russia 2011.)

From the case company's viewpoint, the Outventure private label cooperation with Sportmaster shows an encouraging way of development. That is, LFG expects gaining sales, of which Russia would make the most important target market of export. (Heikkinen 2011.) LFG's sales office in Moscow was recognised as the best representative office 2011. The award is granted annually in Russia and it advocates good customer service and relation experiences. (L-Fashion Group 2011c, 29.)

### 2.3 Role of LFG's subsidiary in China

LFG's Chinese subsidiary is established in Suzhou, China. Its departments serve either specific brands of the LFG's portfolio presented in Table 2 (pp. 19) or all of them. The distribution centre that is a part of the logistic department is at the bonded Suzhou Integrated Free Trade Zone which means that cargo is received and delivered tax-free there. (L-Fashion Group 2011b, 15.)

The accounting department consists of seven employees who are experts in account making and drawing up budgets that observe the Chinese law. Both the logistic department and accounting serve all brands. Suzhou's sample centre is responsible for design, research and production of samples that sales representatives in different market areas need in their work. In this department there are 90 workers who possess excellent technical skills at garment production. (L-Fashion Group 2011b, 14-15.)

Suzhou's merchandising department serves as an intermediary between LFG's Finnish headquarters and its Chinese suppliers. The teams in the department develop new fabrics, trims or products on the basis of what sales teams and designers have required. The department controls suppliers' prices, the quality of goods and delivery times. There are some 17 employees at this department and it is stated that in order to succeed in their work it is important to be good at communicating and negotiating. All the delivery information becomes updated by the merchandising department to LFG's server program and so makes it available to other relevant departments that are involved in the current supply process, too.

In order to be able to maintain the current price level for the buyers of their brands, the company sees that even more operations should be centred to China (Sales department 2011). Both the headquarters in Lahti and Suzhou subsidiary have their own product development department that nevertheless have different functions. Private label products are a part of Suzhou's department and that is why Sportmaster's Outventure is pointed directly to be taken on by Suzhou. Private label product team in Suzhou's subsidiary comprised originally six members. (Heikkinen 2011.) The positive development has resulted in involving more employees in the team that is responsible for Russia (Heikkinen 2012).

### 3 RUSSIA AS TARGET MARKET AND TRADING PARTNER

What is characteristic of the demographic composition of the Russian market is that there is a big gap between the rich and the poor there – yet one of the achieved developments in society is the increasing proportion of rich people. At that, besides Russian society lacking clear social classes, the formation of the middle class is still in an uncompleted state even though in progress continuously. This is worth mentioning as economically a country can be said to be stable when middle class consumers account for over 60 % of the population. (Kolesnikova 2010.)

In 2006 the average income levels varied from the national amount of 6,000 USD to the equivalent ones in Saint Petersburg with 12,000 USD and in Moscow with an amount between 72,000 USD and 120,000 USD (Kolesnikova 2010). Officials suggest that in a rather short term the average salary would come to 8 400 USD (Ryzhkova & Teplinskaja 2012). The official number of the unemployed declined to 1.2 million people by 8 November 2011 (Venäjän ääni 2011). In metropolises unemployment is a rare problem (Kolesnikova 2010).

Russia is a member of the Commonwealth of Independent States (CIS). In December 2011 Russia's membership of the World Trade Organization (WTO) was approved. In order to adjust to the line of the WTO, the membership will evidently mean cuts in import tariffs, for example. It is seen to make the investment circumstances to Russia more favourable for foreign companies. Consequently, as tariffs are to protect Russian manufacturers from rivals who are crossing the border, this protection will then decrease. (The voice of Russia 2011 & WTO 2012.)

### 3.1 Current business environment

In comparison to Russian companies, it is observed that foreign companies receive somewhat equal treatment in the market. Another trend to be noted is that foreign companies seem to have better knowledge of their operations' environment and have more experience. They are, however, also more often based on Russian ways to operate. (Veijalainen 2011.) Therefore, such companies are more adaptive to possible changes regarding the country's business environment, which smoothens their operating in the market. For instance, regulations may change relatively fast. Other fundamental considerations in trading with Russia comprise its currency, the Rouble, and Russian alongside the English and German languages as the most common for business communication. (Finpro 2010.) Next, Table 4 below demonstrates the values of the Russian clothing market between the years 2007-2009.

Table 4. Value of the Russian clothing market (Fashion division 2011; valuuttakurssi.fi 2011)

<b>Year</b>	<b>Bn. USD (EUR)</b>
<b>2007</b>	22 (30)
<b>2008</b>	25 (37)
<b>2009</b>	30 (42)

Over a decade the value has been reflecting a growing trend. As Table 4 shows, by 2009 the value of Russian clothing market amounted to 30 billion USD from 22 billion in 2007 and 25 billion in 2008. This growing trend is in harmony with what was presented in Table 2 (pp. 19) indicating annual growth of 25 % in LFG's sales in the Russian market.

Figure 12 on the next page demonstrates how the Russian clothing market in general is divided into three main areas: Moscow accounting for 38 %, Saint Petersburg accounting 12 % and finally other regions accounting for 50 % of the sales focused on the country. In the figure the state of apparel sales can be studied also by types of products.

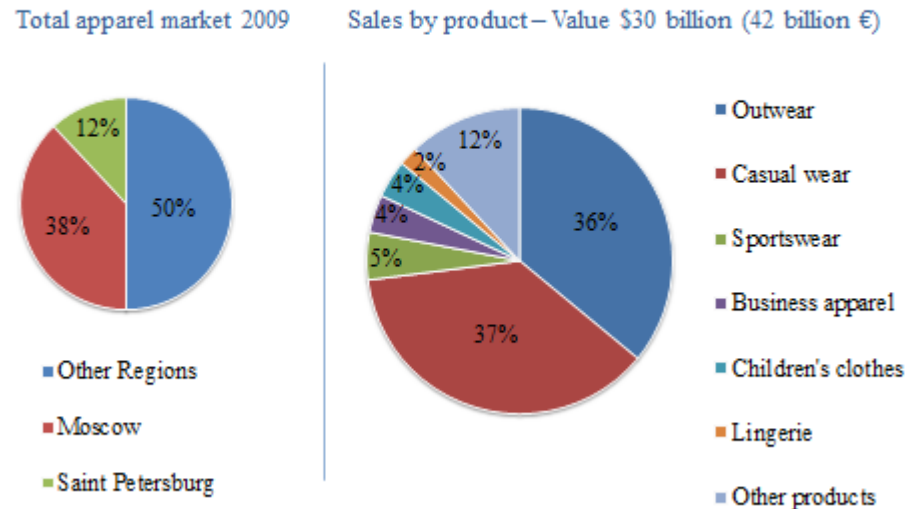


Figure 6. Russian apparel market (adapted from Fashion division 2011; valuuttakurssi.fi 2011)

Segments of casual wear (37 %) and outwear (36 %) represent the most dominant ones. In relation to LFG's products, also sportswear (5 %) as a whole is rather relevant to notice. In all, supply of the case company falls into these categories which consequently should support its pursuits in the market.

### 3.2 Sportmaster – customer profile

Sportmaster is established in 1992, having its headquarters in Moscow. The company operates its own retail stores that specialise in sporting goods and is in size the biggest operator of its field in the Russian market. Sportmaster's annual turnover exceeds one billion USD. (Businessweek 2012; Toivonen 2012.) Its network comprises some 200 stores in 70 of Russian cities and tens in Ukraine, Belarus and Kazakhstan (Sportmaster 2011).

The company lists healthy ways of life, enhancement of sports and leisure and a good quality of life as its function's core values. Its mission is to develop its operations as successful and efficient as possible in relation to providing customers with both a good selection of sports goods and optimal customer service. In addition to this, the company desires to cooperate with suppliers that share its perception of delivering high-quality goods at reasonable prices. (Sportmaster 2011.)

Traditional seller-buyer relationship between LFG and Sportmaster has developed into a deeper relationship of partners in cooperation. The connection between Sportmaster and the LFG's headquarters in Lahti is experienced to be in good condition and the Sportmaster representatives visit Lahti frequently. The managing director of LFG's sales office in Moscow is responsible for communication towards Sportmaster. (Heikkinen 2011; Toivonen 2012.)

Over its customership, Sportmaster has retailed LFG's whole brands Luhta and Icepeak. The company found the quality of products and smooth cooperation satisfactory. Consequently, private label cooperation with LFG began on Sportmaster's initiative. It is the first customer for whom the private label process is carried out with its own designs. To start with, Outventure was first trialled by producing kids' clothing only for one season. After the experiment also adults' collection for the following season was introduced. (Heikkinen 2011.)

Besides the business partnership with the case company, Sportmaster has a network of several other private label producers abroad. Because of its good knowledge of the framework of the process flow, the company is accustomed to communicating and doing business in China too. (Heikkinen 2011; Toivonen 2012.)

By its purchasing volume Sportmaster is classified to belong to LFG's VIP customers. Currently, Sportmaster is their biggest customer which means that also the highest standard of service is applied to communications with it. There are, for instance, given contact persons representing LFG units who deal with Sportmaster directly. (Heikkinen 2012.)



### 3.3 Communication in the Outventure process

Rapid globalisation and organisations' desire to grow internationally highlight the importance of successful interaction with business partners from different countries (Lewis 2006, 28-29). Culture has its reflection on how one chooses to communicate. Nevertheless, culture is something that is learnt by communication and it can also be influenced by it. Even though individual personalities impact communication's success, cultural differences are important to be understood as they call for adaptation. (Fintra 2001, 38, 41.)

Interaction between two partners consists of multiple assumptions about how one finds oneself and how one finds one's receiver in the situation. When considering two parties who represent different cultures, then also their ways of processing the received data may differ from each other. That partly explains situations in which communication has been found unsuccessful. In such a case, distractions in the communication channel could be another factor. Failure is proposed to surface after a message becomes either misunderstood half understood or not understood at all. (Fintra 2001, 39-41.)

Organisational communication consists of its chosen approach and channel. The approach consists of the content, direction and style of communication. These factors define the structure of a message whereas channels determine how it will be distributed. The function of organisational communication is to be able to qualify for requirements of the continuously changing business environment. (Argenti 2007, 33-34, 43; Miller 2009, 29-30.) The written form is the most utilised channel for communication. Handbooks and instructions circulated normally inside a company along with organisational rules, evaluations and other statements are example manifestations of them. (Miller 2009, 29-30.) On the next page Table 5 provides with further details in relation to the structure of communication.

Table 5. Structure of communication (Miller 2009, 29-30; Toivonen 2012)

	<b>Content</b>	<b>Direction</b>	<b>Style</b>	<b>Channel</b>
<b>General features</b>	<ul style="list-style-type: none"> <li>☞ Work</li> <li>☞ Innovation</li> <li>☞ Maintenance</li> </ul>	<ul style="list-style-type: none"> <li>☞ Vertical</li> <li>☞ Horizontal</li> <li>☞ Free-flowing</li> </ul>	<ul style="list-style-type: none"> <li>☞ Vocabulary</li> <li>☞ Level of formality</li> </ul>	<ul style="list-style-type: none"> <li>☞ Face to face</li> <li>☞ Writing</li> <li>☞ Electronic devices</li> </ul>
<b>Case-related composition</b>	<ul style="list-style-type: none"> <li>☞ Internal video conferences</li> <li>☞ Internal i5 software</li> <li>☞ Fitting meetings</li> <li>☞ Email</li> <li>☞ Telephone</li> </ul>			

Table 5 includes general features of the communications composition. The bottom row presents the means of communication that are familiar to the case study. The listing focuses specifically on a process that is in an ongoing state.

In the case study English serves as a business language between Sportmaster and LFG's Suzhou team. The most utilised modes of communication are telephone and electronic mail. (Toivonen 2012.) Introducing the Internet to the supply chain management has resulted in additional cost efficiency as the chain is led in a more synchronised and co-operative manner. All these aspects reflect to better time management and competitiveness

While internal communication between LFG's offices in Lahti and Suzhou makes use of video conferences at least on the managerial level, such technology is apparently not needed to be applied to interaction between the parties of the case study. Along with other forms of electronic communication, such technology supports managing physical distances between businesses and their target markets or partners (Fintra 2001, 12-15).

Organisational intercourse between two companies calls for recognition of motives and intentions in a two-way manner but also highlights trust that is generally built upon aspects of culture and values. Nevertheless, its formation is also influenced by experiences of behaviour and chemistry at the personal level. (Kiiskinen et. al 2002, 118.) Rapid responses to inquiries and other messages from the customer's direction boost the process and add to a positive, reliable image of the seller (Fintra 2001, 38). As stated in the previous section, Sportmaster is classified as one of LFG's VIP customers, which means, for example, that its inquiries are responded within a day. As already pointed out, there are also contact persons who are tasked to take care of communication with the customer directly without unnecessary intermediaries. (Heikkinen 2012.)

The unclarity of standards set by Sportmaster's changing private label managers has affected smooth process flow. Another difficulty has been Sportmaster's requirement to get a picture of each item included in the processed Outventure collection downloaded on the Internet. There are also numerous requirements for the pictures to be considered within limited time. (Heikkinen 2012.)

Collaboration with Sportmaster includes exchanging views on Outventure designs and materials which reflects mutual respect for each other. Especially Sportmaster is keen on LFG's advice to support its decision making process regarding the collection. (Heikkinen 2012.)

## 4 PROCESSES IN THE CLOTHING INDUSTRY

Businesses in the fashion industry live by annual seasons of autumn to winter and spring to summer. Clothing collections are offered and sold to consumers of the market either under a brand name of its manufacturing company or private label of a certain chain of stores. Coming back to an earlier mentioned matter, the process of manufacturing one collection is multi-phased and by length it exceeds a year. The cycle of the seasons naturally fits only in the one-year timeline and therefore product processes that have to be several months ahead of the beginning of a season of sales run simultaneously with each other. (Heikkinen 2011.)

In this chapter I will present general aspects of processes and then study processes regarding apparel supply chains in the industry. One example of LFG's collection processes will be provided in Section 4.3 which discusses the collection implementation in the case company.

### 4.1 Process as a concept

“Understanding how processes work is essential to ensuring the competitiveness of a company” (Chase & Jacobs 2011, 144). A supplementary viewpoint to that would be what a Finnish author, Kai Laamanen (2002), states to be an essential source of competitive edge: the organisation's know-how which in other words refers to what employees can do in practice as a flip side of carefully determined work instructions and goals. A couple of fundamental key elements in developing and utilizing one's know-how effectively include successful interaction and good relationships which arises, for instance, from a good command of communication and acknowledgement of mutual values and differences. Also, “communal experiences”, such as feeling of trust boost the process. (Laamanen 2002, 34-35.)

In Figure 7 it is roughly demonstrated how processes find their place and cooperative functions in an organisation. A process is composed of an active series of functions which singularly refers to several work tasks related to each other. For each organisational process, there is a specific output determined and a customer who can be either internal or external to the company. (Kiiskinen, Linkoaho & Santala 2002, 28.)

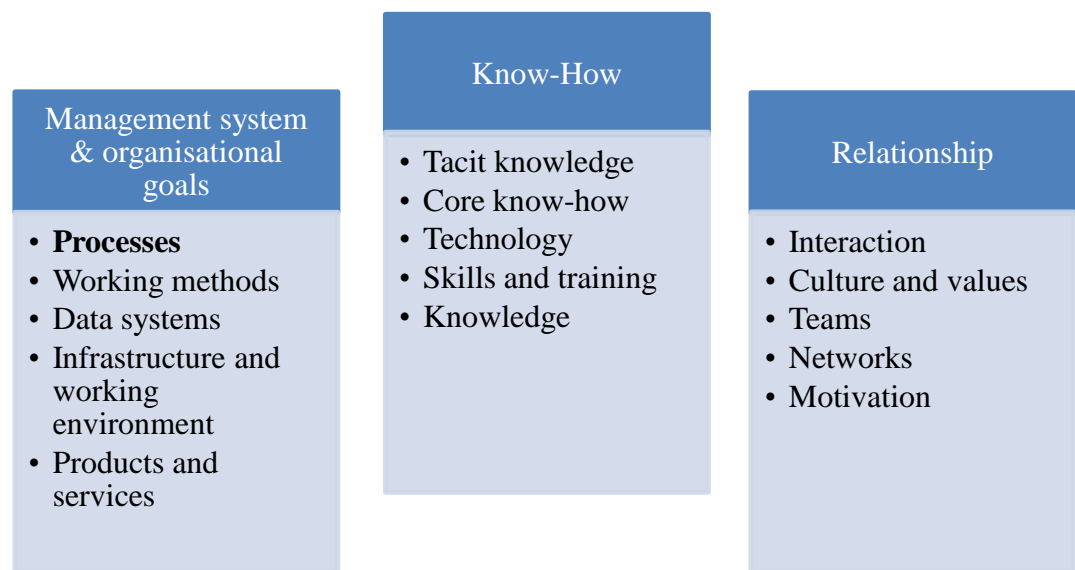


Figure 7. Subjects of management in an organisation (adapted from Laamanen 2002, 33-35)

Figure 7 explains how the subjects of management are composed of three categories that are a part of the core in an organisation. The first one of those is the management system and defined organisational goals and processes are included under that. Other components comprise working methods and environment, data systems and supply of an organisation. The two other categories are know-how and relationship management. Relationships include aspects of team work and communications that are also under the microscope in this thesis work.

In brief, a process occurs when “inputs” get transformed into “outputs” that then provides with a bigger value to that particular part of an organisation which has made the initiation. As in my case study too, the purpose of a process is to produce products as an output when, for example, raw materials, energy, production line and operators have functioned as inputs of the process. Comparably, in a service organization a service would be the output as, for instance, trained personnel and their equipment combined with a customer would form the input. (Chase & Jacobs 2011, 144.) Nevertheless, I see that research into about private labels includes features from both kinds of processes.

Processes can be divided into alternative management methods for production. These are presented in Table 6. The method to be chosen depends on whether the product is delivered directly to the customer or first to the inventory:

Table 6. Types of process and production management (adapted from Chase & Jacobs 2011, 149, 151, 165, 208; Logistiikan maailma 2011, 48)


Type	Activation	Specialities
<b>Make-to-order</b>	☞ Response to an actual order	☞ Slow delivery ☞ Example output: services
<b>Make-to-Stock</b>	☞ Standard products become an inventory of finished goods	☞ Quick delivery to the customer ☞ Efficiency
<b>Assemble-to-order / Hybrid</b>	☞ Generic products become stocked ☞ Customisation of a generic product takes place as a response to an actual order	☞ Process continues after stocking
<b>Engineer-to-order</b>	☞ Design work in collaboration with the customer ☞ Manufacturing process	☞ <b>Outventure private label</b>

Make-to-order processes begin only after an order has been placed. Therefore the lead time may be rather long in comparison to make-to-stock or hybrid processes. Lead time is the time which passes before a customer order is responded by delivering a ready product. Efficiency in a process is achieved when a standard, such as time, is spent usefully in relation to the desired output. (Chase & Jacobs 2011, 208.) Within a make-to-order process the efficiency is emphasized in terms of time management as ready products are being delivered from the inventory as an immediate respond to a customer order.

The last two process types presented in Table 6 (pp. 34) are hybrid (assemble-to-order) and engineer-to-order arrangements. In a hybrid process generic products are customised after storage after receiving a customer order that the product is to match. (Chase & Jacobs 2011, 151.) The most relevant type related to the case study of this thesis is an engineer-to-order process. In such a process a product is designed in collaboration with the customer, after which the manufacturer is responsible for both the purchase of materials and production of goods (Chase & Jacobs 2011, 197). The Outventure process of LFG and Sportmaster is an example of an engineer-to-order process.

In all, generally supply chain management is divided into four strategies: lean, hybrid, agile and kanban. Choosing one of these principles depends case by case on goods' supply and delivery time along with demand and its predictability. As it can be seen in Table 7 on the next page, the principle Kanban is applied when demand for a product is easily foreseen and delivery time is short. That commonly means that there is a constant demand to get a replacement for such product right after it has been consumed. Alternatively, if delivery time expands but demand remains easily predictable, the chosen supply chain strategy follows the lean principle. (Logistiikan maailma 2011, 138-139.)

Table 7. Four strategies of supply chain management (Logistiikan maailma 2011, 138)

Supply	 <i>Delivery time</i>	Lean	Hybrid
		Kanban	Agile
		<div><div>+</div><div>-</div></div> <i>Predictability</i>	
		Demand	

In a case where demand is unpredictable and delivery time short, the agile method is applied. What is required then is an ability to react quickly and so avoid shortages of supply. Lastly, Table 7 presents the hybrid principle when demand is difficult to foresee. That is, to a certain point, named as de-coupling, the lean method is being applied after which it turns to purely agile. (Logistiikan maailma 2011, 138-139.)

Manufacturers may easily combine a couple of strategies and apply those as their operations model. Both lean and agile principles are common and also a functioning combination. (Logistiikan maailma 2011, 60.) In the apparel supply chain the lean model is suitable because of both predictability and the long life cycle that consumer goods possess. Textile products are an example of such goods. On the other hand, delivering products, which have high sales margins and whose availability at the right time is important, require flexibility. In that event, high fashion clothing serves as an example and the chosen model would follow the agile principle which is suitable for products of a short life cycle (Logistiikan maailma 2011, 60).

A successful process is determined by the customer's experience at the end of a supply chain. Logistical process can be developed by examining critical phases that do not add value to the process outcome. Such phases entail warehousing, packing and handling of goods and other measures that do not increase the customer's willingness to pay for a particular item (Logistiikan maailma 2011, 51).



Furthermore, a key element in process improvement is recognising phases that add and do not add value and the relationship of both groups considering the lead time. Tools for process development also include shorter lead times and the introduction of improved customer service, safety at work, technology and information flows. More efficient production and distribution along with renewed work phases finish listing the common points of consideration in terms of continuous competitiveness enhancement of an organisation. (Logistiikan maailma 2011, 50-51.)

#### 4.2 Structure of processes in the clothing industry

Clothing collection whose purpose is to be available to consumers is the usual outcome of the process. Successful timing is an essential factor when the success is evaluated as ready products need to be in the market when buyers are ready to purchase them. In other words, the business schedule is dictated by that demand set for the seasonal calendar. (Keiser & Garner 2008, 60.)

In their book, *Operations and Supply Chain Management*, Chase and Jacobs list eight different general types of product development processes:

- **Generic (market-pull products)**
- **Technology-push products**
- Platform products
- Process-intensive products
- Customized products
- High-risk products
- Quick-build products
- Complex systems

(adapted from Chase & Jacobs 2011, 76-82)

The first two categories, generic and technology-push products, are the best match to describe clothing goods that are relevant to the case study. In the product development process of generic or market-pull products the demand in the market is met after the prospect has been spotted. (Chase & Jacobs 2011, 80.)

Accordingly, each process includes the following phases:

0. Planning
1. Concept development
2. System-level – Design
3. Detail design
4. Testing and refinement
5. Production

(adapted from Chase & Jacobs 2011, 78)

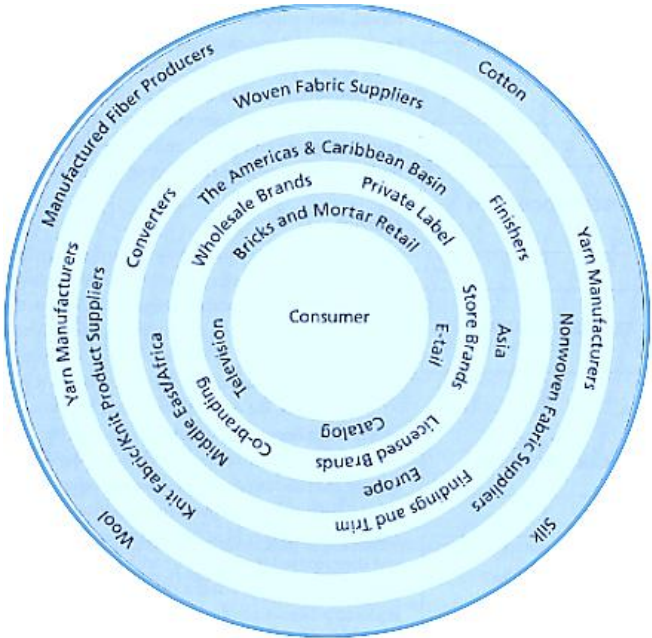
The second listing of process phases basically consists of activities of product development in general. To compare, a new product development process can also be seen to comprise phases of concept formation (match up to 0-1), development (2-4) and production (5) (Burt et. al 2003, 215; 223; 229). Generic product processes, such as clothing, normally include each of these phases mentioned.

What is generally distinctive to manufacturing processes in the clothing industry, would be quite a wide selection of goods that is commonly produced in big lot sizes. In comparison to industries whose products require different approaches, the production of LFG is relatively effective and highlights the importance of a good management of both delivery times and inventories. As for a private label process for a specific retailer, the emphasis of what would be characteristic of a selected form of manufacturing shifts to the viewpoints of customer service and timing. Consequently, the private label case study deals with production in smaller lot sizes. (Logistiikan maailma 2011, 47-49.)

One more way to describe different process phases is to examine them on the levels of marketing, design, manufacturing and other functions such as research, finance and general management in relation to allocating project resources (Chase & Jacobs, 2011, ss. 78-79). In regard to the case study, the process to examine is the supply chain that in all consists of a series of different processes that occur logically following one another. Moreover, the processes may occur simultaneously or even proactively in their relation to each other.

Nevertheless, as pointed out in Chapter 1, supply chain management has had to face the requirements of speed and flexibility in the business environment of a more global nature. That is, a more descriptive word for a company's supply chain would more often be supply network or virtual supply chain that is an interactive network comprehending each party involved in the process (Burt et. al 2003, 9, 108-109; Keiser & Garner 2008, 7). How a supply chain in the clothing industry is pieced together can be studied in Table 8.

Table 8. Linear and virtual models for apparel supply chains (Burt et. al 2003, 9; Keiser & Garner 2008, 5-6)

Linear model for the supply chain	Virtual model for the supply network
<p><b>Agriculture</b></p> <p>↓</p> <p><b>Fibre production</b></p> <p>↓</p> <p><b>Textile production</b></p> <p>↓</p> <p><b>Clothing manufacturing</b></p> <p>↓</p> <p><b>Distributors</b></p> <p>↓</p> <p><b>Final consumer</b></p>	

The biggest difference between the two supply chain models presented in Table 8 results from attitudes towards the process output. In a modern supply network each action and phase aims at satisfying the consumer demand (Burt et. al 2003, 109). Quite on the contrary, the linear model represents such a chain where each activity has its own customer and those occur one after another (Keiser & Garner 2008, 5). In terms of communication within a supply chain, the information flows are also directed differently. In the virtual model activities may occur in a parallel manner and information is shared throughout the process and not only between members of two subsequent activities. (Burt et. al 2003, 9; Keiser & Garner 2008, 5-6.)

In relation to supply chain management too, the nature of logistic trends highlights the importance of long-term relationships, collaboration and also consideration of geographical distances and timing (Logistiikan maailma 2011, 15-16). Collaboration of all members involved in the supply chain supports organisations to develop side by side with the supply chain that are becoming even longer and more complex to manage. Regarding the case study, long-term co-operative relationships are fruitful for product development and innovation processes from the viewpoint of both LFG and Sportmaster. The trends call for fluent information flows which for one require trust between the partners (Logistiikan maailma 2011, 15).

All in all, ready products are brought to the target market as a result from collaboration of a network including elements and members presented in the following figure (Keiser & Garner 2008, 4).

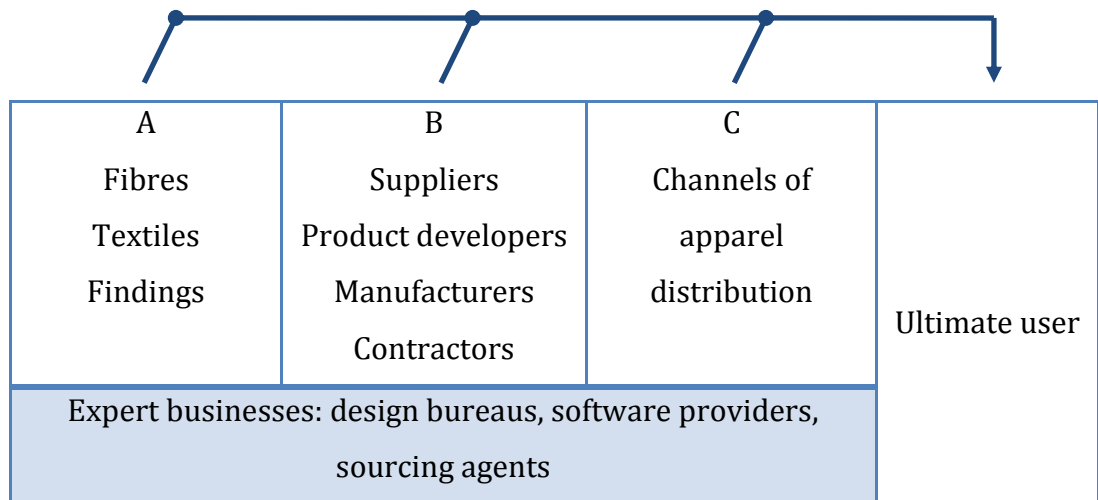


Figure 8. Traditional composition of the apparel supply chain (adapted from Keiser & Garner 2008, 5)

Three groups (A+B+C) demonstrated in Figure 8 form the operators of a supply chain. This model implementation bases on a traditional supply chain but the members in it are naturally introduced in a more modern environment too. After the supply chain reaches the ultimate user, the process is brought to its end. Expert businesses refer to external service providers whose involvement in the process adds to its efficiency as their know-how is introduced to the process in which the already existing operators usually lack this specific expertise but it is needed anyway.

In relation to the case study, I could say LFG's roles among the ones named in group B would match with manufacturer. On the other hand, the company shares the roles of a supplier and a product developer with its subcontractors as for material purchase and with its customer Sportmaster as for products' design. Additionally, Sportmaster operates as a contractor. Sportmaster's chain of stores equals distribution channels required by the group C in the previous Figure 8. Even though the traditional supply chain model could be applied to the private label supply chain like this, it also shows its more complex nature. That is why it could be wise to pursue to implement the chain by means of a different kind.

Relationships in the supply chain can be of several kinds depending on their quality and purpose. Transactional and collaborative determinations are preliminary stages to an alliance between supply chain members. (Burt et. al 2003, 8.) In all, it is a necessity for partnership at an organisational level that the collaboration results in benefits for each party. Naturally, the advantages must not contradict, which means that the roles of the partners differ and simultaneously support each other. Such business partnerships are commonly formed when a couple of powerful players combine their skills in order to achieve a competitive edge related to a stronger product or service portfolio or, for instance, a more stable position in the market. What is more, the collaboration is determined to be applied to select unit, areas or operations only. (Kiiskinen et. al 2002, 116-117.)

In the case study, Sportmaster has outsourced the manufacture of its Outventure collection to LFG. In this setting the roles are clear and the mutual ambition of the two is to advance both businesses separately. Among other ambitions outsourcing aims to provide with cost efficiency for the customer and on the other hand, growth for the service provider (Kiiskinen et. al 2002, 116).

#### 4.3 Process implementation for LFG's collection

Collection maps and figures serve as a tool for members involved in the clothing collection creation and delivery process. Inside the company, collection creation is presented very thoroughly and mostly serves product development teams. In this section I will present the process flow of LFG's Story collection. Although, Icepeak is the biggest collection by the number of items and themes and utilised as a basis for private label collections too, I find the Story implementation to offer a more suitable model to the study.

Consequently, Figure 9 concludes the main phases of the process. This model functions as a more purposeful guidance to understand the process flow of one collection also from a general viewpoint. The second appendix of the thesis shows each phase of the illustration in detail (appendix 2) as in the figure is could have not been readable enough. The Outventure private label process will be discussed in Chapter 5 where it can be compared with the wholesale brand process below.

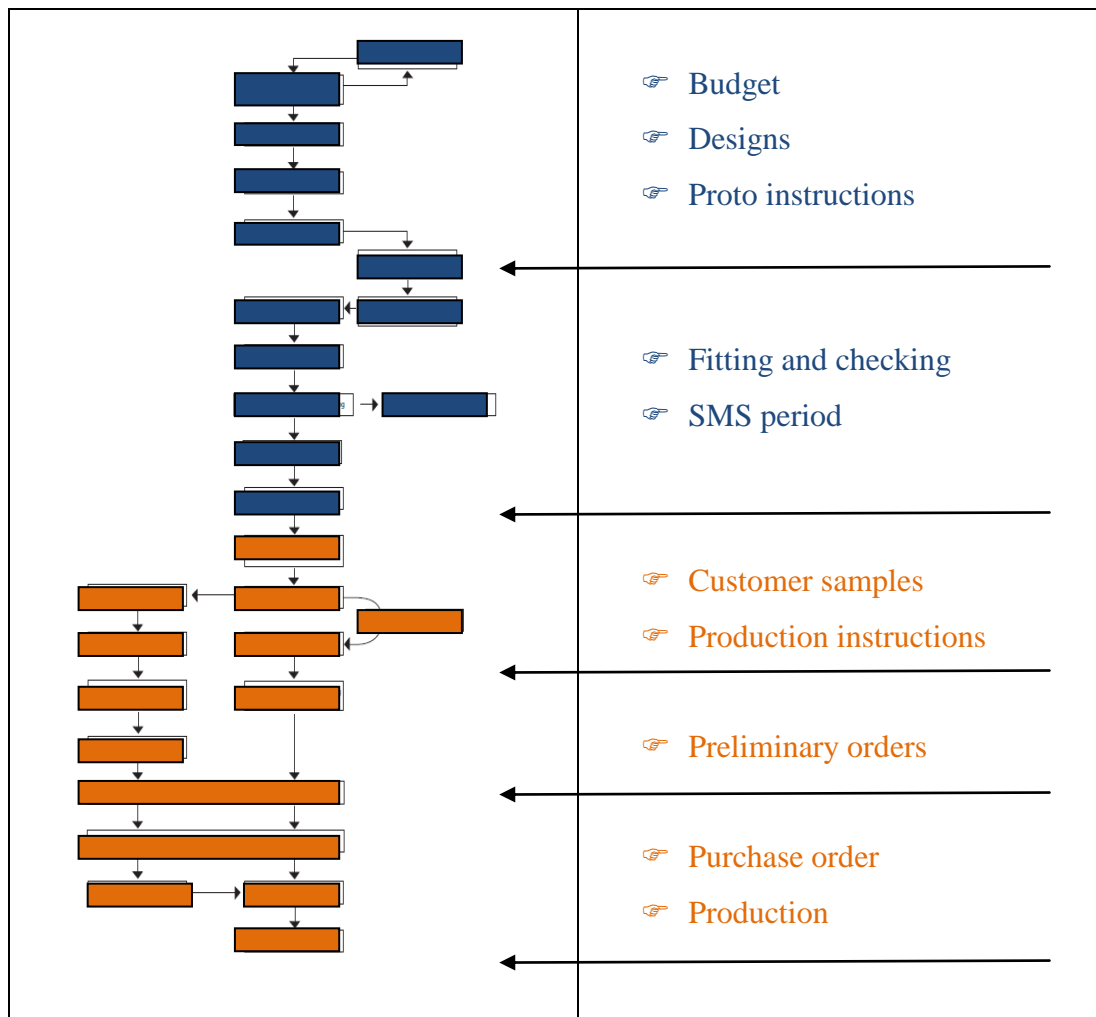


Figure 9. Implementation of Story collection process (Heikkinen 2011)

In Figure 9 the second column summarises the phases that are illustrated on the left side. LFG's customers, who in this process description consist of retailers and other businesses, are involved after the phases marked with the colour blue. That is, the vision of the prospective collection is built by the company alone. The definitions of materials and budget are taken care of by the product development department.

In the phases marked with the colour orange in the figure the sales team provides customers with proto samples and receives preliminary orders. In the final phases of such a wholesale brand process purchase orders are placed and the production is started on their bases. In relation to goods' supply chain, the Story model comprehends only the stage of manufacturing. As private label process calls for consideration of a larger stretch of the supply chain, in the conclusions of this thesis more phases will be added to the distribution of responsibilities in the Outventure supply process. That is, more external members are involved in the private label process from its beginning.

Designs of the Story collection served as a basis for the trial Outventure collections. The current process flow of the private label collection is described in Section 5.2 (pp. 50). Further differences between the wholesale brand and private label product processes will be presented also in that section.

The figures presented in appendices 3 and 4 demonstrate the Icepeak process (appendix 3; appendix 4). Each period is described in a complex fashion and requires several members' involvement. The model has been compiled strongly from the viewpoint of product development. They are attached to this thesis in order to deepen one's understanding and give some baseline.



## 5 PRIVATE LABELS IN THE CONTEXT OF TEXTILES

Product development processes in the field of textiles or clothing manufacture are required to pay attention to multiple aspects. Processes are different on the base of the selected type of either private label, wholesale brand or some other kind of brand. All in all, those aspects include taking its market's demand and requirements for the desired product into account. Additionally, in a successful process each partner follows the schedule planned for the product to be in the market on time. They should also understand the shared responsibility involved and risk for the production. (Keiser & Garner 2008, 18-19.)

In accordance to information on the home page of the Private Label Manufacturers Association (PLMA), Table 9 below introduces a grouping of private label manufacturers in terms of their size, focus and other specifications.

Table 9. Types of private label manufacturers (adapted from PLMA International 2012; PLMA 2012)

Type of manufacturer	Specification
Large manufacturer	<ul style="list-style-type: none"> <li>• Expertise</li> <li>• Extra capacity</li> </ul>
Small and medium size manufacturer	<ul style="list-style-type: none"> <li>• Smaller in size or subsidiaries</li> <li>• Focus on private labels</li> <li>• Certain kinds of products</li> <li>• Quality manufacturer</li> </ul>
Major retailers and wholesalers	<ul style="list-style-type: none"> <li>• Self-sufficient in manufacturing possibilities</li> <li>• Supply of own labels</li> </ul>

Private label products often supplement a large manufacturer's supply when it has the capacity to produce those besides their own wholesale brand products. In general, one of their biggest assets is expertise in the industry. Small and medium size manufacturers who, for instance, could be subsidiaries of larger parent organisations or manufacturers have a particular focus on delivering certain kinds of private label products only. Representatives of this type are also referred to as quality manufacturers.

The third group is formed by major retailers and wholesalers who own the facilities where they manufacture products to be sold in their own stores. (PLMA 2012; PLMA International 2012.) This group could be seen as the most self-sufficient of the three. I would say that the case company LFG represents the third group of retailers and wholesalers. Yet, in relation to its international operations in particular, the company falls in the first one as nearly all of its customers abroad are retailers themselves, which then positions LFG in a clearer role of a large manufacturer.

### 5.1 Idea of private labels

The production of private label products was initiated in the 1980's as a response to demand for cheap clothing corresponding to the latest designs of the season. Since then, the market and consumer attitudes have changed and the nature of private label products has also followed this transformation (Keiser, S. & Garner, M. 2008, 20). Contrary to their original characteristics, nowadays private label programmes offer innovative products and greater value to the consumer. For example, in Europe private labels' popularity among consumers is on the upswing and the number of such programs is growing too. (PALM International 2012.)

Private label products are commonly sold by big merchants and department stores. They account for commonly 15 to 50 percentage of a store's merchandise mix and, as stated in Chapter 1, compete with the wholesale brands that commonly account for the rest of the mix (Keiser & Garner 2008, 20-21.) When it comes to how relationship between design and retail is carried out, private label arrangements can be divided into three categories as presented in Table 10 on the next page.

Table 10. Different private label arrangements in the clothing industry (adapted from Burns & Bryant 2007, 280)

Group	Features
A	The specifications of designs introduced by the retailer Sourcing of goods and production realised by the manufacturer
B	The retailer and the manufacturer work together throughout the process in order to create the collection for the retailer
C	The retailer's collection process is carried out by the manufacturer

In the case of arrangement A the retailer customer brings their designs to the manufacturer who then sources material as instructed and produces the ready goods. Alternatively, if it can be seen that the retailer and the manufacturer collaborate in the course of the entire private label creation process, then the arrangement falls into group B. The third group C describes an arrangement of a private label process that is fully carried out by the manufacturer. (Burns & Bryant 2007, 280-281.)

In relation to the case study, it could be said that the realisation of the Outventure process does not represent purely one group rather than combines two arrangements mentioned above. As it suits group A, the retailer, Sportmaster, brings its own designs to the process, leaving LFG to take care of sourcing and production. Nevertheless, their cooperation and mutual decisions further in the process match with the description of the group B.

In comparison to wholesale brand or conventional design development the ready product is named by the clothing company. The main beneficial features of private label production include cost-efficient designs that meet the quality requirements but are less detailed or decorated. Since LFG and Sportmaster have their different roles as a manufacturer and a retailer, the objectives of the cost-efficiency differ. That is, the aim of LFG is to deliver a production friendly collection whereas Sportmaster pursues to deliver a collection that is a good seller. (Heikkinen 2011; Toivonen 2012.)

## 5.2 Outventure brand as a process

Private label processes commonly lack additional steps in the supply chain if the customer has a direct connection to the manufacturer and, for example, there is no need for a sales representative. (Burns, L. 2007, 281.) Delivering private label products changes the manufacturer's stance towards the process whose asset is to be cost efficient to produce and yet to prove its price-quality ratio in the eyes of the ultimate user. Like in LFG's case, in addition to the retail sale customer's straight connection to the production team, the process involves less customer service, for example, in terms of providing marketing material. On the contrary, wholesale brand product processes include such services that add to the value experienced by the customer. (Chase & Jacobs 2011, 471; Toivonen 2012.)

LFG's product development departments in both Lahti and Suzhou have their own teams that specifically concentrate on delivering private label collections. In their case private label products commonly base themselves on LFG's own designs that are included in its brand portfolio. In such case, only the name on a label differs from the original wholesale brand product. The most successful clothing product categories where private label collections have been utilised are casual clothing for work, casual sportswear, active wear and plus-size clothing (Keiser & Garner 2008, 21).

Typical of private label products, Outventure is a brand that is sold exclusively by Spormaster's chain stores in Russia. That is, the brand is distributed only in Russia. (Heikkinen 2011.) In comparison to LFG's inner collection process, work phases differ as LFG's role focuses on manufacturing whereas Spormaster's role in terms of product development is heavy. The arrangement's functionality reflects successful cooperation between these two members in this particular process (Toivonen 2011). In other words, the traditional segregation between the seller and the buyer becomes more transparent unlike in the wholesale brand process.

Sportmaster's specific agenda indicates its deep view of what is the niche that the collection covers regarding their merchandise mix. This precision accelerates the mutual process of the companies. (Heikkinen 2011.) One leading guideline in terms of product development is aiming more specifically to structure such collections that match with the goods sold successfully from the retail shop (Sales department 2011).

Nevertheless, what is special for the process in the case study is that Sportmaster brings its own designs and heavier presence in the collection process unlike a usual private label customer of the company. Figure 10 next demonstrates the main phases of the Outventure private label process from LFG's viewpoint.

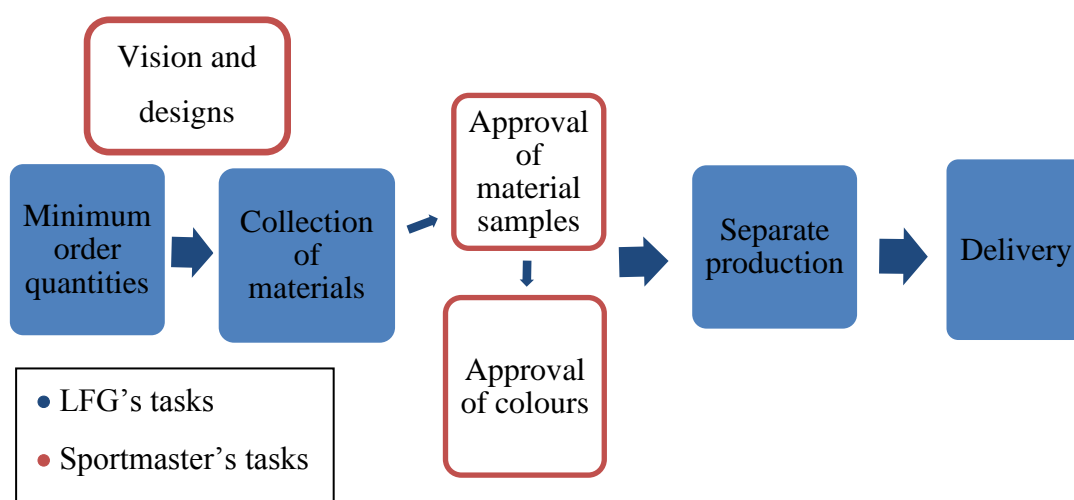


Figure 10. LFG's private label process (adapted from Heikkinen 2012)

LFG's first condition set for its customer in order to begin private label cooperation is fulfilling the minimum order quantities of 1 200 pieces per model meeting the amount of 600 pieces per colour. The earliest collection phases of LFG's wholesale brand comprise structure and design. In relation to a private label collection these two are gone through with heavy involvement of the customer, Sportmaster. After drawing up the instructions based on the requested designs, the development team in Suzhou gathers the materials needed for their realisation.

In the following phases that are marked red in Figure 6, the customer receives material and colour samples for them to approve. Another difference in comparison to any wholesale brand process of the company is the timing of the production and delivery times of goods. That is, the production is separate and takes approximately six months to deliver after a private label customer has placed their order. (Heikkinen 2012.)

Fitted size ranges are among crucial parts in the creation of a collection. As the Outventure process includes two fitting meetings with Sportmaster in order to bring the designs to meet the original vision created for the collection, such issues are managed through co-operation. Decisions made about the direction of the Outventure collection consist of LFG's advice and Sportmaster's ultimate opinions. The management of the product development from the Lahti headquarters are present at the meetings organised in Moscow. (Heikkinen 2011.)

### 5.3 LFG's competence assessment and SWOT

The case company has already carried out successful private label processes for foreign customers in Europe, where their biggest sales areas are made up of Germanic, Baltic and Nordic countries, The Netherlands and France. In addition, the overall experience gained from both several decades of international trade and cross-cultural communication and the growing insight of these processes are valuable assets in order to manage also the private label process for the Russian customer, Sportmaster.

Figure 11 on the following page presents a SWOT analysis on LFG's competence in relation to the private label process. The matrix concludes main strengths, weaknesses, opportunities and threats that the company may meet within the course of the process both internally and externally. The comparison of measures listed in the analysis functions as a tool for the evaluation of LFG's standing as a private label manufacturer for Russian customers in general. The Outventure process serves as an example as it is relevant to the case study and represents an already existing private label product.

After presenting the SWOT analysis matrix in Figure 11, I will go through first internal strengths followed by external threats and then internal weaknesses and external opportunities.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>☞ Experience in the Russian market</li> <li>☞ Knowledge of the industry</li> <li>☞ Sport brands' success</li> <li>☞ Input of the product development team in Suzhou</li> <li>☞ Supplier relationships and knowledge of the location in China</li> <li>☞ Cooperative nature of business partnership with Sportmaster</li> <li>☞ Success in the past and positive feedback from the customer</li> </ul>	<ul style="list-style-type: none"> <li>☞ Lack of clear distribution of responsibilities in the supply chain</li> <li>☞ Impractical internal communication model</li> <li>☞ Misunderstandings with the procedures</li> <li>☞ Vulnerability to market prices of oil and cotton</li> </ul>
<ul style="list-style-type: none"> <li>☞ Product image in the Russian market</li> <li>☞ Increased interest in leisure and sportswear in the market</li> <li>☞ Private label product specifics</li> <li>☞ Russia's demographical development</li> <li>☞ Gaining knowledge of the market through private label process</li> <li>☞ Russia's positioning as the biggest export market</li> </ul>	<ul style="list-style-type: none"> <li>☞ Geographical distances</li> <li>☞ Causes of delays to delivery times</li> <li>☞ Less sales for wholesale brands</li> <li>☞ Problems to access raw materials</li> <li>☞ Country risks of China and Russia and unpredictable changes in the market</li> <li>☞ Restrictions on the boarder and trading barriers</li> </ul>
Opportunities	Threats

Figure 11. SWOT analysis on LFG's private label competence

### Strengths and threats

As presented earlier in Chapter 2, LFG has operated in the target market for several decades. It has established a firm foothold in the clothing industry. In terms of export the company has succeeded in the fields of leisure and sportswear, which also adds to the importance of the Icepeak brand considering expansion. Furthermore, according to the analyses of the development of sales in Russia in 2010, the Fashion division and retail operations show a descending trend, whereas the Sport division that includes Icepeak manage to do the opposite (Sales department 2011).

Besides centralising all purchasing activities in Suzhou, the company headquarters plans to increase the subsidiary's share of other operations too. The fact that the manufacturing takes already place in China enables the current price level that is one of the main assets of the company's international brands. Nevertheless, a possible rise in raw material prices of oil and cotton in China set their challenges on maintaining the price level for LFG's customers. These rises affect the material prices held by LFG's suppliers and can be unpredictable in size. (Sales department 2011.) That is, centralising more functions offshore helps to preserve the present competitive level of consumer prices without having had to cut LFG's sales margin at its cost. One more issue to consider regarding clothing manufacturing in China are labour costs that have also shown a growing trend. Moreover, qualified workforce is able to put wages out to tender which increases competition. (Kunz & Garner 2007, 265-266.)

One of the biggest strengths in relation to the private label process too, is LFG's commanding know-how in the industry that has been gained through experience. Additionally, the expertise of operating in China is included in such assets as the company has managed to establish dependable supplier relationships there. What is more to mention regarding internal strengths of LFG's Chinese operations, is the subsidiary's product development team that contributes exclusively to the private label process. The team communicates with the headquarters' product development department openly which for one shows motivation and readiness to develop in relation to enhance the company's trade to Russia (Heikkilä 2011).



All in all, business partnership with Sportmaster, the private label customer of the case study, is included in the strengths in the SWOT analysis (pp. 52). Its nature has turned from buyer-seller or buyer-supplier relationship into more solid co-operation of the two organisations. From the viewpoint of the private label process, the experience of doing business with each other lessens the risks of having had to deal with unfamiliar procedures of the other party regarding, for instance, communication. Moreover, the positive feedback received on the basis of the first seasons that introduced Outventure collections supports the continuation of the production. Considering Russia as a geographically large area, collaboration with Sportmaster brings indirectly along the chance of reaching regions in remote locations too.

In the Outventure supply chain, or network, the members are sought to become involved in the long term and found reliable. The involvement of professionals in the process minimises the risk of delays for one. Nevertheless, not all causes for delays can be eliminated. Especially in the global context geographical distances are one additional factor to schedules of transporting physical goods. Therefore they are an important issue to manage. Also the relatively high amount of bureaucracy involved in business life both in China and Russia may hinder sticking to timetables.

In terms of LFG's supply of its own brand portfolios, it is relevant to highlight the effects of private label products on the sales of the company's wholesale brand products. For instance, also the Luhta brand is included in Sportmaster's merchandising mix in its shops (Sportmaster 2011). Yet, it is characteristic of private label products that they are plainer by design and more affordable to the ultimate buyer. What is relevant though is that in comparison to LFG's wholesale brands, private label collections, such as Outventure, are in principle to complement another niche in the merchandising mix.

The current Outventure programme is being executed for the fourth season. A problem encountered in the collaboration is Sportmaster's lack of a committed private label manager. The situation is different in China where the same person has operated as the head of product development team at LFG Suzhou. The team's expertise now is a big asset for the private label management. Due to Sportmaster's dilemma confusion occurs about standards set by the customer. (Heikkinen 2012.)

Other threats faced from the outside of the organisation are such issues as problems with the availability of raw material availability and international trade with Russia and China. The business environment in both countries is experienced to involve bureaucracy and require a good knowledge of laws and regulations. Furthermore, customs clearance practises in both countries call for expertise to a certain extent. As stated in Chapter 1 too, also relatively rapid changes in the environment in Russia are possible. Because of such issues supply chain processes might face interruptions if they are not given enough consideration. By paying in US Dollars, the company aims at managing currency risk which is involved in operating in China (L-Fashion Group 2011a, 22). The company uses the dollar in its Russian trade too, but exceptionally enough, Outventure products are sold in Russian Roubles (Heikkinen 2011).

### Weaknesses and opportunities

The list of internal weaknesses regarding LFG's positioning as private label supplier begins with flaws in communication that may hinder information flows in the supply chain. Also impractical measures that include, for example, involving too many parties in routine communication with the customer. Electronic correspondence serves as an example as the number of copy receivers could be cut. This also has its reflection to the point where the lack of understanding the clear allocation of tasks and responsibilities becomes examined.

The Outventure process is in its current extent and shape a rather new addition to LFG's operations as a whole. Due to that, misunderstandings occur in the process flow and this adds to the importance of clearer distribution of responsibilities in the supply chain. Uncertainty inside the process has surfaced also because of Sportmaster's contradictory interpretation of certain directions (Heikkinen 2012).

Vulnerability to rises in prices of oil and cotton is typical of a company that operates in the clothing industry. In the SWOT analysis this issue is included in threats too, and was discussed under the previous heading.

Finally, the SWOT analysis concludes opportunities coming from outside of the case company. Currently there is a trend in the Russian clothing market that indicates increasing interest towards leisure and sportswear among the consumers. Also, demographical changes and the formation of the middle class described more in detail in Section 3.1 are of an advantageous kind for LFG's aspiration to grow bigger in Russia. Private label programmes to the target market are also enhancing Russia's positioning to become the biggest export market of LFG.

A couple of LFG's best known brands, such as Luhta, have established a good image in the Russian market. The company has operated there for several decades after which its products have been experienced to represent good quality. Sportmaster's positive feedback strengthens the reputation achieved.

Private label products are relatively simple by design. Efficiency in cost and time management that are both typical of private label processes make it possible to manufacture a collection separately from the production of LFG's own brands. What is more, the collaborative business relationship with the Russian customer increases LFG's knowledge about private label programme flow and operating in Russia in the long run, too.

## 6 CONCLUSIONS

First in this chapter I will concentrate on responding to the first objective listed for the case study (pp. 8) which will be carried out by presenting a model for the distribution of tasks and responsibilities in the private label supply chain for Sportmaster. In Section 6.2 the future view as well as a few recommendations will be presented. They will reflect the findings of my overall research of supply chains and processes. Last but not least, I will present a few developmental aspect related to the future of LFG's share of the private label supply chain. In the third section of this chapter I will evaluate the quality of my thesis.

### 6.1 Distribution of responsibilities in the Outventure supply chain

Process descriptions serve as one mode of communication. In general, such figures aim at presenting the dependencies of process activities on each other. It supports one to understand the role of one's own and the other members of a supply chain. When a process description is compiled, it is important to include the most crucial parts affecting the process. A good process description enhances cooperation between the members of a supply chain and advances possibilities to function in a flexible manner. This is required as a process is influenced by the prevailing circumstances of its environment. (Laamanen 2002, 75-77.)

Table 11 implements the Outventure process flow. The main focus is on sharpening the distribution of responsibilities in their collaborative network.

Table 11. Distribution of responsibilities in the Outventure supply chain

Supply chain activity		LFG Lahti	LFG Suzhou	LFG Moscow	Sportmaster	Expert businesses
Initiative negotiating		×				
Order					×	
Contract				×		
Vision					×	
Budget					×	
Design					×	
Material supply			×			
Approval of sample materials					×	
Manufacture of prototype			×			
Approval of proto samples					×	
Production			×			
Organising transport of ready goods						×
Transportation						×
Bureaucracy				×		
Delivery				×		
Invoicing				×		
Evaluation		×			×	

Table 11 is compiled so that the relevant supply chain activities to the Outventure process are listed in the singular column on the left side. The darkening colour green demonstrates the process flow from top to bottom. Additionally, the green arrow circling the table from right to left indicates the continuity of this supply chain. In relation to all supply chain stages listed in Chapter 4 (pp. 42) Table 11 includes only the most relevant ones from the viewpoint of LFG Suzhou's product development team that is responsible for operative work in constructing Outventure collections for Sportmaster. Phases that have been filtered out include agriculture and both fibre and textile production that nevertheless, are involved in the material supply marked in Table 11. That said the table comprises the stages of clothing manufacturing and distribution. The final consumer would be positioned at the end of the supply chain.

The top row of Table 11 introduces all the supply chain members involved in the Outventure private label process for Sportmaster. LFG's units are set one after the other in order to help contrasting them with each other. Sportmaster as a customer and partner in cooperation is placed next, whereas the last cell includes expert businesses that are external to both LFG and Sportmaster. Such businesses were discussed in Chapter 4 (pp. 42). The check marking (×) indicates the member who is responsible for the activity listed in each row. In reference to Table 1 (pp. 4) and Figure 2 (pp. 6) of this thesis, the definition of roles and units of the case can be found in Chapter 1.

Expert businesses involved in the Outventure supply chain are mainly organisations, to which LFG has outsourced the transportation of ready goods to Russia and other logistic tasks included in it, (Odintsova 2011). As the table shows, the LFG headquarters (LFG Lahti) is responsible for communication with the customer at the beginning of the process. The responsibility shifts to LFG Moscow when the sales contract is drawn up with Sportmaster.

Even though LFG units assist the customer by giving their advice in the course of the Outventure process, the decisions on the vision, budget and designs of the collection are introduced by Sportmaster. After receiving the directions on their basis, LFG Suzhou is tasked to take care of material supply. This leads to the first meeting of the units in Moscow where the sample materials should be approved by Sportmaster.

The responsibility shifts back to LFG Suzhou in the first manufacturing period of proto samples. After this, the decision of approving the samples is made by Sportmaster in the second meeting in Moscow. The production of the collection is then executed in China, which makes the Suzhou team responsible for the work at this point. After the involvement of the expert businesses discussed earlier, the responsibility shifts again to LFG Moscow that deals with the Russian import of ready goods and is tasked to make them available for Sportmaster. The goods are paid in Russian Roubles which is also taken care by this sales office, as referred in previous chapters.

Finally, the Outventure process flow can be evaluated. The usual form of feedback received from Sportmaster would be informal (Toivonen 2012). From the viewpoint of continuity, the phases of the supply chain presented in Table 11 returns to the period of negotiations and vision creation, as the green arrow indicates, too.

## 6.2 Future view and recommendations for the case company

Both the case company LFG and its customer Sportmaster show willingness to contribute to their continuous business partnership and close collaboration in Outventure collection creation. Consequently, Table 12 on the next page demonstrates in which direction the positive progress in team development and communications could lead the private label process from the viewpoint of LFG.

Table 12. Future view for LFG's private label production

Timeline	Developments in the private label supply chain
Past and present time	<ul style="list-style-type: none"> <li>☞ Tightened co-operation with Sportmaster</li> <li>☞ Good customer satisfaction</li> <li>☞ Adoption of responsibilities and tasks</li> </ul>
Short-term period	<ul style="list-style-type: none"> <li>☞ Internalising mutually followed internal procedures</li> <li>☞ Mapping the efficiency of private label products as a tool to meet consumer demand</li> <li>☞ Processing feedback</li> <li>☞ New private label programmes for Sportmaster</li> </ul>
Long-term period	<ul style="list-style-type: none"> <li>☞ Team development</li> <li>☞ Collaborative private label programmes to other market areas</li> <li>☞ Introducing more purposeful organisational intranet/extranet</li> <li>☞ Delivering consumer-oriented collections at speed by private label production</li> </ul>

Firstly, Table 12 concludes the development that is taking place currently. The feedback received from the private label customer has been encouraging and supports the continuation of collaboration with Sportmaster. Defining responsibilities in the supply chain is one tool to establish a shared consensus on how the Outventure programme is viewed as a whole. Because of problems referred to in the previous Chapter in relation to Sportmaster's private label management, there are standards that still call for fitting in the process. Permanent operators in the process might provide it with consistence and therefore enhance its flow.



What is concluded in the second part of short-term developments consists of achieved insights in the course of the previous seasons. This could happen through analysing customer feedback, for example. Additionally, this phase includes introducing the unification of procedures in practise to the process. Even now LFG's Key Account Manager Heikkinen (2012) assumes that the difficulties related to Sportmaster's inconsistent instructions should be diminished as programmes for further seasons become executed.

In the near future it is possible to assess the cost-efficiency of private label production retrospectively in relation to the process output that is to represent a successful seller in the shop. Since the case company's core competence is founded on its wholesale brand processes, private labels provide LFG with a good baseline in this context. In the forthcoming season there will be another private label programme introduced for Sportmaster's distribution. A rough vision for the new label is characterised by higher levels of quality and pricing (Heikkinen 2012), which seems to be remarkably closer to what LFG's own brands represent.

Thirdly, Table 12 presents prospective enhancements in the long term resulting from the private label collaboration. LFG Suzhou's continuously strengthening product development team for the Outventure private label will be an even more important factor in the long run. As the team learns to work together ever more seamlessly and increases its efficiency, its continuity becomes extremely relevant (Burt et. al 2003, 111). Additional efficiency should be gained through the team's more autonomous position to do business. Regarding future investments introducing a renewed system for organisational data and process management in forms of a more purposeful intranet and extranet for the demands of the supply chain.

Assuming there is interest in private label collection among big retail customers, the strong know-how of the case company makes it possible to start new programmes in its other market areas, too. That is, with the collaborative aspect that distinguishes the production of private labels from wholesale brands in a similar way as showed in the Outventure study. Of course, this might require, for example, more comprehensive capacity analyses inside the case organisation. Nevertheless, collaboration with the foreign retailer in order to deliver private label collections can be a good solution strategically to grow bigger in the market. That is, the specifics of such products involve native reading of what ultimate buyers wish to buy in a store. Moreover, those are relatively fast to deliver for the retailer's distribution.

### 6.3 Study evaluation

The chosen qualitative methods utilised for research in this thesis were purposeful. In other words, these criteria support the validity of the thesis (Saunders, Lewis & Thornhill 2009, 157, 603). The settings of the case study were somewhat exceptional when considering the given nationalities, the nature of collaboration between the customer and the case company and the viewpoint of private label processes. On this basis I would not claim that the theory or my conclusions are generalizable or externally valid (Saunders et. al 2009, 158). My interviews focused on discussing relevant issues for the study. Nevertheless, each interviewee worked for LFG and could have shared only personal opinions in relation to the subject.

I find the observations of the research based on the collected data dependable, so that a similar kind of result could be stated if the study were repeated by another researcher. For this reason, reliability is present in the thesis study. (Saunders et. al 2009, 600.) The sources used in the thesis are relatively recent and their contents match the theory compiled in the work. The oldest material dates from 2001. Nevertheless, I could not have an access to literature that would combine theory of each part of the subject that was tailored on the base of the need of the case company. That might have affected how effortlessly the chapters are read.

When considering discussion on further studies, in this line of research I would first bring up cultural diversity in the global business environment. Related to the topic of my thesis, that is, for example, studying cultural differences between Russian and Chinese business partners and their effect on cooperation in the course of a supply chain process. On the other hand, this could also be contemplated from the viewpoint of a buyer-seller relationship only.

## 7 SUMMARY

The objective of this thesis was to study supply chains and the current situation of the case company in order to develop tools for its private label process improvement in the context of international clothing industry. The theoretical part of this work was compiled of the relevant factors relative to private label supply chains in the multicultural and collaborative environment. The case study gave this work the special viewpoint of the company's product development teams in separate locations of Finland and China. The retail sale customer, Sportmaster, is located in Russia. The current trends met in the field of supply chain management include a call for collaboration and networking as the level of competition increases along the globalisation of business life. The concept of supply chains has gradually been turning into a process that aims at achieving goals, or outputs, that are common to each member involved in one supply chain, or network.

In this thesis conclusions were achieved by studying LFG's private label programme for Sportmaster. The study was executed by exploring the theory and its empirical counterpart in a parallel manner throughout the thesis. The case study was built around the Outventure private label collaboration which positions LFG in the role of a manufacturer and a supplier. Consequently, the Russian customer Sportmaster was set to a buyer's role. In the case study the Outventure process equalled of a private label supply chain from the viewpoint of LFG.

Implementations resulted from the research questions stated in the first chapter first accounted a SWOT analysis on LFG's private label competence. Its function was to serve as a tool for analysing the current state of the process and the factors that might influence on its development. One objective set for the theory was to investigate how it might support the distribution of responsibilities in the supply chain through process studies. Consequently, the last implementation was to draw up a table on the distribution of responsibilities in the most relevant phases of the apparel supply chain. Process descriptions in general possess the function of enhancing flexibility in a process that is influenced by the prevailing circumstances of the environment.

After the introduction, Chapter 2 presented the case company and its operations related to the thesis topic. The LFG headquarters as well as one of its product development departments are located in Finland. The company has established subsidiaries both in China and Russia with distinctive functions. In the Chinese location of Suzhou LFG has manufacturing facilities as well as the other product development department. In Russia the company has established a sales office whose responsibilities include the sales contracts with Russian customers and the import of the ready goods. The office is situated in Moscow.

Sportmaster's customer profile was compiled in Chapter 3 which also discussed Russian business environment and market features. The company is among the biggest retailers of sporting goods both in Russia and some of its neighbouring countries. The tendencies of the market indicate the formation of a bigger proportion of middle class consumers. Additionally, clothing categories that currently succeed in the target market include casual and outdoor, both of which represent the outputs of LFG's core collection processes. For the case company Russia has been seen as the most important market where growth can be achieved.

Before having presented the concept of processes and how those become structured in the clothing industry in Chapter 4, collaboration in the context of communication between LFG and Sportmaster was discussed. LFG's product development team in Suzhou is tasked to communicate with Sportmaster in the course of each Outventure process. Business partners who aim at delivering an engineer-to-order products work together starting from the phase of vision creation, which is the first part of the whole product development process. Coming back to the trends of international supply chain management, networking and the establishment of long-term relationships in the supply chain are current topics of this field. Trust is one crucial part of successful cooperation as it can be considered the prerequisite for information sharing. In the case study the business relationship has evolved into collaboration with time from the basic seller-buyer setting of the beginning.

In the clothing industry market demand is adjusted to the annual rhythm or seasons. Therefore time is an important standard in the apparel supply chain and the efficiency in the process is based on how smoothly the activities of the supply chain are carried out in relation to this standard. For that reason clarity in the distribution of responsibilities between the members involved in the supply chain enhances the efficiency. The significance of such a definition was highlighted in terms of the case study where two separate companies with distinct roles of their own are required to work together so that the demand of the market will be met at the right time. The degree of success can be inferred from how well this becomes secured.

In Chapter 5 the focus was on delivering private label clothing. In the case study the process output of the collaboration is the Outventure private label that is a clothing collection manufactured by the supplier (LFG) and distributed by the buyer (Sportmaster). Private labels are commodities that are sold exclusively by one retailer. Commonly, they fulfil, for instance, a niche for less expensive goods in the retailer's merchandise mix. This function calls for cost-efficiency in the supply chain too.

Main results of the study showed that problems surfaced in the private label supply chain include inconsistent process procedures and imprecise instructions presented by Sportmaster's changing private label leaders. Moreover, operating in the yet more global environment calls for flexibility and speed so that the supply chain reaches its ending at the right time. That is to have the produced goods available for the ultimate consumer when they are ready to purchase. For such reasons the time is an important issue to manage in the private label process. Therefore, improvements could be achieved through purposeful communication that navigates the process to efficiently achieve its desired outcome, meaning satisfaction to all the members involved in the supply chain. Spotting and eliminating unnecessary intermediaries is one additional mean of development. Efficiency in communication has a reflection on the formation of information flows in the whole supply chain.

The prerequisites of continuity and development within the private label collaboration include maintenance of such circumstances that benefit both businesses involved without their motives contradicting one another. I might add that smooth collaboration calls for the recognition of the distinctive responsibilities within a supply chain.

This cyclic continuity of the Outventure collaboration enables standardising procedures shared with the customer. Also the functioning of the Chinese product development team (LFG Suzhou), that is liable for working independently together with the Russian customer, improves constantly as more knowledge is gained through experience. Additionally, purposeful communication and clear information flows in the supply chain influence on the progress as well. The two enhance also flexibility in case where the composition of the team changes and assistance should be needed to retain the know-how within the unit. The distribution of responsibilities and the implementation of those together with the other relevant activities of the supply chain serve as a tool for understanding the process.

Supply chains that touch on wholesale brand processes, whose outputs comprise the clothing collections for LFG's own distribution, are carried out internally. Even though the wholesale brand and private label product categories differ from each other in design, production and pricing strategies, the Outventure private label production adds to the competition in the consumer market. Therefore, the sustainability of difference in customer segmentation should be observed within the development of the private label collaboration.

This study may be utilised as a base for process improvement measures which focus on adapting to the development of linear supply chains towards global supply networks which is a current tendency in the manufacturing industry. The setting has been explored to highlight the cooperation between members involved in a supply chain. In addition to the geographical distance between business partners of different nationalities, also the cultural one often sets its twisting effect on how business is run and done.

Therefore, communications in the changing business environment would be yet more relevant issue to study further. Regarding the multinational collaboration, one example could be the cultural aspects in the context of communication. Understanding cultural differences and the background of a foreign business partner might help organisations enhance their operations in negotiations, for instance.



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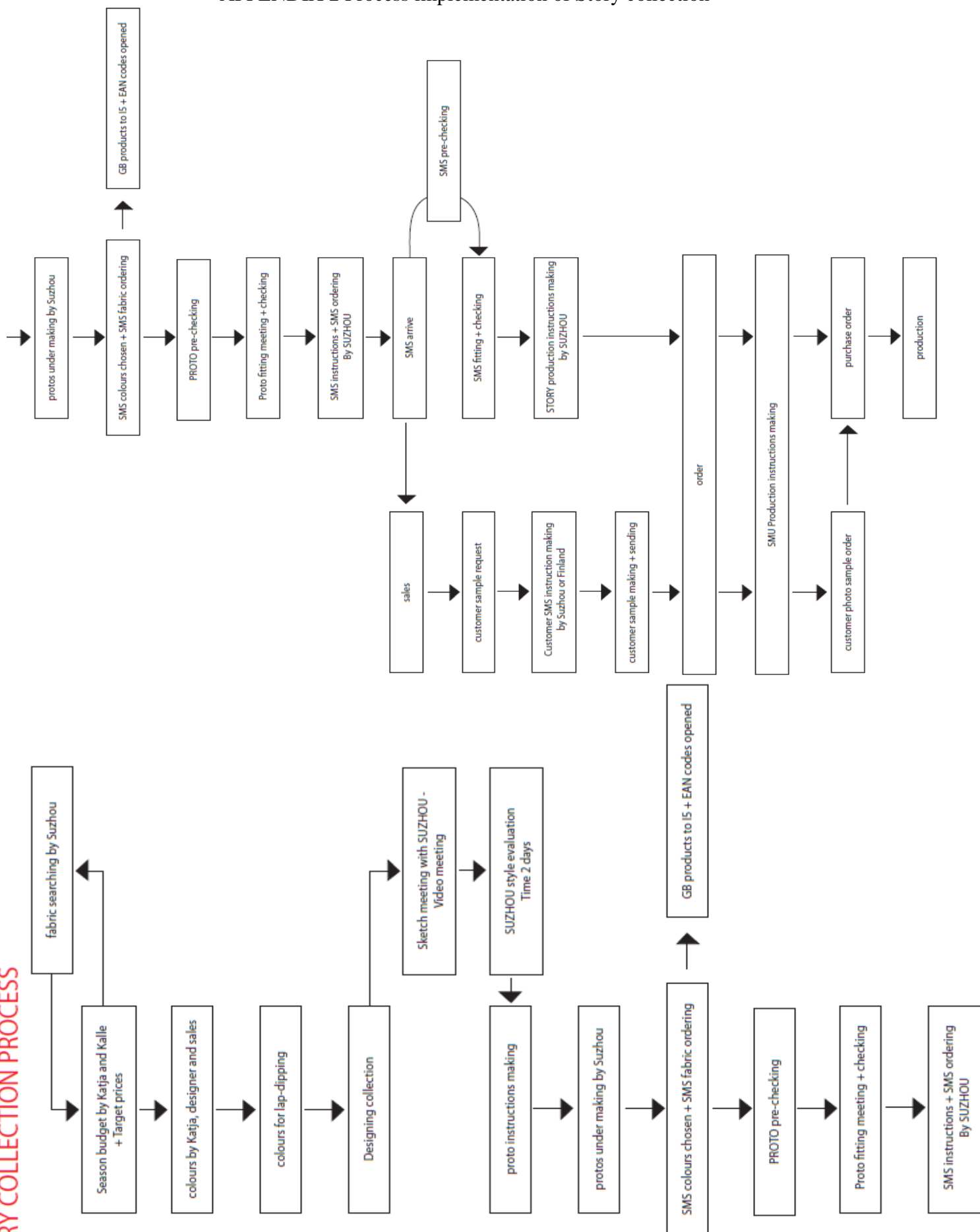
# Appendices

## APPENDIX 1 Topics of the theme interviews with Marina Toivonen and Katja Heikkinen (2012)

*Vastaukset:*

1. VIP-asiakkuus ja Sportmaster	
2. Private label -prosessi	
3. Outventure-yhteistyö	
4. Toimintojen keskittäminen Kiinaan  <i>Muuta kommentoitavaa?</i>	

Kiitos!



## APPENDIX 3 Phases in the Icepeak process

Phases in the Icepeak process				
Collection structure	Design	Proto period	SMS period	Production period
<i>Collection mapping</i>	<i>New trim ideas</i>	<i>Proto prices</i>	<i>Pre-sales pricing</i>  <i>Logistic product information</i>	<i>Capacity decisions</i>  <i>Special instructions from the sales department</i>
<i>Season and marketing schedule</i>  <i>Collection plan</i>	<i>Trim instructions</i>  <i>Product instructions</i>	<i>Proto comments</i>	<i>Sample comments</i>  <i>System updates</i>	<i>Sales meeting</i>  <i>Delivery overview</i>
<i>Brand philosophy</i>	<i>Ideas</i>  <i>Trim sample</i>  <i>Proto instructions</i>	<i>Proto sample</i>  <i>Quantities and colours</i>  <i>Proto fitting</i>	<i>Materials ready</i>  <i>Decoration samples ready</i>  <i>Colour books ready</i>	<i>Production plan</i>  <i>Final price negotiations</i>  <i>Product testing and checking</i>  <i>Shipment sample</i>



## APPENDIX 4 Pictures of Icepeak process implementation

